

**REPORT OF THE STUDY TEAM
ON
GENERAL INSURANCE
CO-OPERATIVES**

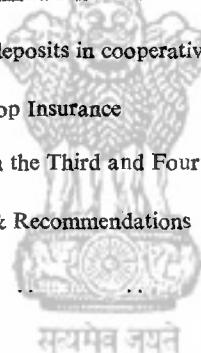


**MINISTRY OF COMMUNITY DEVELOPMENT & COOPERATION
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CHAPTER I

INTRODUCTION

Under notification No. F.9-26/63-Coord., dated 14th January, 1964, the Government of India appointed a Study Team to examine the working of the general insurance cooperative societies, to suggest measures for their improvement and to recommend their future line of development. The following were the terms of reference of the Study Team :—

- (i) to review the present functioning of cooperative societies in the field of general insurance;
- (ii) to recommend specific measures for their development on sound lines; and
- (iii) to indicate the promotional steps and future programmes for the organisation and working of co-operatives in the general insurance sector, particularly in the third and fourth plan periods.

A copy of the notification constituting the team is given in Appendix I.

1.2. At its first meeting held on 26th-27th February, 1964, the Team discussed its terms of reference for formulating its plan of work. The Team considered that the review required to be undertaken by it under the terms of reference need only be a general study for understanding the present position of the societies and for formulating measures for their future development and that more comprehensive study in the nature of an enquiry or investigation was not contemplated. The Team formulated its plan of work accordingly.

1.3. The Team considered it necessary to visit the four cooperative general insurance societies, study their working and discuss with the board of directors their progress and problems. To facilitate such study the societies were asked to furnish information on certain important points. The questionnaire addressed to the societies is given in Appendix II. The Team also considered it necessary to discuss with the State Governments concerned and non-official cooperators their assessment of the working of the societies, their views on the pattern of organisation and steps necessary to effect closer coordination between the societies now in existence and those that may come up later. In addition the Team felt that it should seek the views of some of the

other Governments and their non-official cooperators on its terms of reference. All the State Governments were asked to intimate their assessment of the insurance potential of the business of cooperative institutions. Some of the State Governments had made such assessment. The Controller of Insurance and the General Insurance Council were also requested to give their general assessment of the working of the Insurance Cooperative Societies.

1.4. Considering the magnitude of the problem and the need for a fairly detailed study in consultation with State Governments and others concerned the Team felt that it would not be possible to complete the report within the time allotted. At the same time keeping in view the need for outlining the future programme in time for inclusion in the Fourth Plan proposal the Team decided to complete its work by 31st May, 1964 and requested the Government of India to extend the time accordingly. The Government of India acceded to this request.

1.5. The Team held the following further meetings :

Bombay	30th March, 1964 March, 1964 & April, 1964.	31st 1st April, 1964.	Discussions with (a) the Union Cooperative Insurance Society, (b) Govt. of Maharashtra (c) Non-official cooperators.
Hyderabad	2nd April, 1964		Discussions with the Cooperative General Insurance Society and with officials and non-officials of Andhra Pradesh.
Madras	3rd April, 1964 4th April, 1964		Discussions with the Cooperative Fire and General Insurance Society and officials and non- officials of Madras, Mysore and Kerala.
Calcutta	15th April, 1964		Discussion with officials and non- officials of West Bengal and Assam.
Cuttack	16th April, 1964		Discussions with the Orissa Co- operative Insurance Society.
Bhubaneswar	17th April, 1964		Discussions with the Government of Orissa.
Ahmedabad	27th April, 1964		Discussions with officials and non- officials of Gujarat.
Delhi	30th April, 1964 & 1st May 1964.		Discussions with officials of U.P. and Madhya Pradesh.
Poona	25th-26th May 1964		Finalisation of report.

The Team proposed to visit Chandigarh on 29th April, 1964 but the date did not suit the Government of Panjab. The Team also requested the Governments of Bihar, Rajasthan and Jammu and Kashmir to send their representatives—officials and non-officials—to meet it at Calcutta/New Delhi. The dates did not, however, suit the State Governments. The Governments of Bihar and Jammu and Kashmir, however, sent their views in writing. The Ministers incharge of Cooperation, Madras, Maharashtra, Gujarat and the Deputy Minister incharge of Cooperation, Orissa were good enough to spare some time and give the Team the benefit of their suggestions. At New Delhi the Committee had the benefit of a discussion with Dr. J. S. Patel, Agricultural Commissioner, Dr. Bhattacharyya, Animal Husbandry Commissioner and Dr. Seth, Deputy Statistical Adviser on the problems of and scope for crop and cattle insurance being undertaken by the general insurance cooperatives.

1.6 Besides these meetings, the Committee had also the benefit of discussing the various issues with Shri Vaikunthlal Mehta, Prof. Gadgil, Shri R. G. Saraiya, Shri M. R. Bhide, Deputy Governor, Reserve Bank and Shri Bharde, formerly Minister of Cooperation, Maharashtra and now Speaker, Maharashtra Legislative Assembly. The Chairman of the Team also had the benefit of discussion with Shri Venkatappiah, Chairman of the State Bank of India and Prof. D. G. Karve. The Team did not have the benefit of a discussion with Shri Kaul, Chairman of the Life Insurance Corporation as the dates of the Team's visit to Bombay did not suit him. The Team could not also meet the General Manager of the India Guarantee and General Insurance Company Limited as he was out on tour during the period the Team was in Bombay. In the absence of the General Manager of the India Re-insurance Corporation, the Team met Shri S. K. Desai, Deputy General Manager.

1.7 A list of officials and non-officials with whom the Team held discussions is given in Appendix III.

1.8 We are grateful to the various State Governments and the Cooperative Insurance Societies for making all arrangements for our discussion and to the non-official cooperators and others who were good enough to discuss the problems and give us the benefit of their suggestions.

1.9 We have great pleasure in recording our appreciation of the services rendered by our Member-Secretary Shri R. Vengu. His efficiency and promptness helped us to complete our work in so short a time.

CHAPTER II

PRESENT POSITION OF GENERAL INSURANCE COOPERATIVE IN THE COUNTRY

Introduction

2.1 There are four cooperative general insurance societies in India—the Cooperative Fire and General Insurance Society Ltd., Madras, the Orissa Cooperative Insurance Society Ltd., Cuttack, the Cooperative General Insurance Society Ltd., Hyderabad and the Union Cooperative Insurance Society Ltd., Bombay—transacting general insurance business under the Insurance Act, 1938. All these societies except the Orissa Society were originally established as subsidiary organisations of Cooperative Life Insurers of Madras, Andhra Pradesh and Bombay. The Cooperative Fire and General Insurance Society, Madras was the first to be established and later on other societies were established, the Union Cooperative Insurance Society being the last. All the four societies function under the Multi Unit Cooperative Societies Act with their area of operation extending to the whole of India. In addition there is a Cooperative Insurance Society in Orissa writing the business of third party insurance under the Indian Motor Vehicles Act. Similarly a Cooperative Insurance Society is functioning nominally in Bihar. A Cooperative General Insurance Society has recently been registered in Maharashtra State. The society will commence business as soon as it secures the necessary registration under the Insurance Act, 1938.

General details of the operation of the societies

2.2 Some important details of the operation of these four cooperative general insurance societies are given in the table below. The total gross premium increased from Rs. 27.8 lakhs in 1958 to Rs. 120.03 lakhs in 1962. Out of this the premium from the business of cooperative institutions increased to about Rs. 43 lakhs during 1962. The detailed working of each society is indicated in the subsequent paragraphs.

Operation of Cooperative General Insurance Societies in India

(Rs. in lakhs).

Year	Gross premium	Of which premium from cooperatives	Reinsurance premium ceded to companies abroad	Reinsurance Premium gained from Companies abroad	Claim less reinsurance
I. Cooperative Fire and General Insurance Society, Madras					
1958	7.03	4.62	Nil	Nil	1.77
1959	8.80	5.14	Nil	Nil	1.50
1960	7.77	4.74	Nil	Nil	1.76
1961	10.09	4.92	Nil	Nil	2.66
1962	9.50	6.47	Nil	Nil	1.89
II. Orissa Cooperative Insurance Society, Cuttack					
1958	1.28	0.14	0.08	Nil	0.17
1959	1.31	0.33	0.15	Nil	0.24
1960	1.41	0.44	0.20	Nil	0.39
1961	3.15	0.44	0.26	Nil	0.39
1962	3.90	0.51	0.26	Nil	1.25
III. Cooperative General Insurance Society, Hyderabad					
1958	5.71	1.21	1.18	0.55	1.07
1959	7.14	1.81	1.15	0.62	1.72
1960	10.36	3.25	1.45	0.79	1.83
1961	13.56	3.55	1.50	1.63	3.62
1962	15.36	3.38	1.76	1.95	5.04
IV. Union Cooperative Insurance Society, Bombay					
1958	13.78	N.A.	3.36	2.37	1.61
1959	20.49	N.A.	4.49	2.99	2.59
1960	33.31	12.32(a)	9.22	5.36	5.12
1961	64.72	21.60(b)	16.31	7.77	7.56
1962	91.27	32.45	17.20	9.73	14.49
Total					
1962	120.03	42.81	19.22	11.68	22.67

(a) Fire Department only.

Figures for other Departments not available.

(b) Fire and Miscellaneous. Figures for Marine not available.

Cooperative Fire and General Insurance Society, Madras

2.3 The Cooperative Fire and General Insurance Society, Madras was registered in 1941 under the Cooperative Societies Act, 1932, primarily to cater to the general insurance needs of all cooperative institutions and also to utilise the funds to the extent possible within the cooperative movement. The society writes fire, miscellaneous and marine insurance business and has developed its business steadily. The gross premium income during 1962 was of the order of Rs. 10 lakhs. A notable feature of its working was its sizeable support to sister cooperative institutions. At the end of 1962 the society had invested about Rs. 8

lakhs in the debentures of the Land Mortgage Banks and about Rs. 9 lakhs as fixed deposits in the State Cooperative Bank *i.e.* an investment of about Rs. 17 lakhs in the cooperative movement out of its total investment of Rs. 27 lakhs. The society has no reinsurance arrangements with companies abroad and its entire reinsurance is placed with companies in India. We feel that the present retention limits of the society for different classes of business need to be reviewed and adequate reinsurance arrangements be made.

2.4 The ratio of basic limits for expenses in terms of section 40 C of the Insurance Act, 1938 to gross premium written direct in India (marked B) and ratio of expenses incurred in India to gross premium written direct in India (marked A) during the years 1958 to 1961 are as under :

		1958	1959	1960	1961
Fire & Miscellaneous	A	50	49	52	42
	B	49	49	48	48
Marine	A	19	10	9	12
	B	29	28	25	27

2.5 The State Government has not given any financial assistance to the society but the Registrar had appealed to the cooperative institutions in the State to place their insurance business with the society. We were glad to note that the bulk of the business of the society was from cooperative institutions. In the course of our discussions with the Board of Management which consists of important cooperators of the State we found that cooperative opinion in the State was fully behind the society and that the society would prefer to deal mainly with cooperative institutions and business incidental thereto. Because of this favourable climate the society practically works only in the Madras State although its area of operation was the whole of India. The other societies also practically do not operate in the State so far as business from cooperative institutions is concerned.

2.6 The society has two classes of membership, 'A' class membership open to cooperative societies on payment of the prescribed share and B class membership which is nominal without shareholding open to others on payment of Re. 1. The Board of Management does not provide for representation of B class members. As such individual policy holders although admitted to B class membership and allowed to participate in the profits through the 'No Claim Bonus' for Fire Policy holders do not participate in the management. We feel that individual policy holders should also be able to participate in the management.

Orissa Cooperative Insurance Society

2.7 The Orissa Cooperative Insurance Society Ltd. was registered in 1946 under the Bihar and Orissa Cooperative Societies Act with a view mainly to transact motor insurance business. From 1948 it gradually extended its activities to other classes of general insurance and entered as a Tariff Insurer in 1951. The society transacts all kinds of business except Marine. It has recently applied for permission to transact Marine business.

2.8 The society was superseded by the State Government for three years from 1956 to 1959. An elected board of management is functioning since February, 1959.

2.9 Membership consists of founder members, cooperative societies and individuals who hold at least one share of the value of Rs. 100. Policy holders who pay a membership fee of Re. 1 per each policy held are made class II members without right to vote, participate in the management and profits of the society. We were informed that the society has sent proposals to the Registrar for amending its byelaws to provide for participation of policy holders in the management. This is a healthy change and we hope the proposals will be approved.

2.10 The society has steadily expanded its business particularly during the two years 1961 and 1962. Its gross premium income during 1962 was of the order of Rs. 4 lakhs. The area of operation of the society extends to the whole of India and it has established two branches one at Calcutta and the other at Agra in 1961. The bulk of its business is from the open market and custom from cooperative institutions accounts only for about a sixth of its total business. We were informed that this was due to the fact that insurance consciousness in the State cooperative sector was not yet well developed and only a few institutions placed their business with the society. In our discussions with the Board of Management we found a keen awareness of its responsibilities to the cooperative sector. We also found evidence of a keen desire on the part of the State Government to nourish and foster the society. We have no doubt that with the spread of cooperative consciousness and with some promotional measures to be taken by the State Government which we suggest later the society will progress further.

2.11 The ratio of basic limits for expenses in terms of section 40 C of the Insurance Act, 1938 to gross premium written direct to India (marked B) and the ratio of expenses incurred in India

to gross premium written direct in India (marked A) during the years 1958 to 1961 are as under :

		1958	1959	1960	1961
Fire and Miscellaneous	A	44	54	47	48
	B	46	46	47	49

(The society did not transact marine business)

Cooperative General Insurance Society, Hyderabad

2.12 The Cooperative General Insurance Society Ltd., Hyderabad was registered in 1947 and started business in 1949. Its area of operation extends to the whole of India and it has a number of branches in different States. The society has steadily expanded its business and the gross premium from cooperative institutions was Rs. 3.4 lakhs. We were informed that premium income from cooperative societies has increased to Rs. 4.5 lakhs in 1962 out of its total premium income of Rs. 18 lakhs. The society has reinsurance arrangements with insurers both in India and abroad. From the available information we found that the society has reciprocity in its reinsurance arrangements with foreign companies on the basis of premium ceded and gained.

2.13 Membership of the society consists of cooperative societies, individuals who are mostly founder members, the Government of Andhra Pradesh and the Life Insurance Corporation of India. We are happy that all the important cooperative apex institutions are fully represented. Policy holders who pay entrance fee are admitted as nominal members and participate in the 'No Claim Bonus'. They cannot, however, participate in the management. We consider that policy holders should also be enabled to participate in the management. We are giving our suggestions in a subsequent chapter.

2.14 The ratio of basic limits for expenses in terms of section 40 C of the Insurance Act, 1938 to gross premium written direct in India (marked B) and the ratio of expenses incurred in India to gross premium written direct in India (marked A) during the years 1958 to 1961 are as under :

		1958	1959	1960	1961
Fire & Miscellaneous	.. A	54	49	47	45
	B	51	49	49	49
Marine	.. .. A	19	10	9	12
	B	29	28	25	27

2.15 The State Government has not given any financial assistance to the society but had advised cooperative institutions and

Government Departments to insure their property with the society if the terms are competitive. In discussion with the State Government we found that they were generally satisfied with the working of the society and would promote its efficiency and successful functioning. The Board of Directors which consists of representatives of all important cooperative institutions, whom we met were equally anxious to lend all support to the society.

2.16 Of the total investment of Rs. 17.3 lakhs at the end of 1963, about Rs. 4.6 lakhs was in the cooperative sector.

Union Cooperative Insurance Society

2.17 The Union Cooperative Insurance Society Ltd., was established in 1949 with area of operation extending to the whole country but started business in 1951. Till 1952 the society transacted only fire business. In 1953, it undertook miscellaneous business and in 1956 it registered for marine business also. The society has branches all over India except in Andhra Pradesh. The society has expanded its business substantially and is offering some special types of covers which very few insurers are transacting. It has also undertaken very limited crop and cattle insurance. The gross premium in 1962 was about Rs. 91 lakhs of which premium from cooperative institutions was about Rs. 32 lakhs.

2.18 While the expansion could be deemed to be satisfactory from the business point of view, we understood from enquiries made and discussions held that there were certain complaints that the expansion was attributable to a certain extent to aggressive salesmanship not fully justified in all respects and not necessarily in keeping with cooperative ideology and principles and indiscriminate appointment of staff for procuring business. The general working of the society was more in the line of growth of business other than cooperative rather than concentration on insurance problems of cooperatives. There was also not full involvement of representative cooperative opinion to the extent desired.

This, along with the basic urge of the cooperative institutions in Maharashtra State to have their own insurance society, was a major factor which led to the organisation of the new cooperative insurance society in Maharashtra for catering to the requirements of cooperatives in the State and for conserving the resources in the cooperative structure itself.

2.19 The ratio of basic limits for expenses in terms of section 40 C of the Insurance Act, 1938 to gross premium written direct in India (marked B) and the ratio of expenses incurred in India

to gross premium written direct in India (marked A) during the years 1958 to 1961 are as under :

			1958	1959	1960	1961
Fire & Miscellaneous	..	A	50	48	49	46
		B	50	48	45	41
Marine	..	A	12	32	44	42
		B	30	31	34	35

NOTE :—Ratio to gross premium written direct in India of the additional amount allowed under Rule 17(3) of the Insurance Rule, 1939 is 1.4 percent for 1958 and 0.7 percent for 1959. This has not been allocated between the classes.

2.20 The Government of Maharashtra has not given any financial assistance to the society but had appealed to the cooperative institutions in the State to place their insurance business with this society. The Registrars of Cooperative Societies in other States had given similar support to this society which had helped it to build up a sizeable cooperative custom.

2.21 The society has extensive reinsurance arrangements in India and abroad. From the figures available it was noticed that the premium ceded outside India was more than premium received from abroad. The society explained the difficulties in securing reciprocity but the available material could not help us in assessing whether a more balanced reinsurance arrangement could have been effected.

2.22 Membership of the society consists of cooperative societies, Life Insurance Corporation and individuals including founder members. Policy holders are not necessarily members of the society and as in the other societies do not participate in its management.

2.23 The Chairman and the General Manager who met us informed us that the Board of Directors had authorised them to hold discussions on their behalf. Consequently we could not have the advantage of a discussion with the Board as we had done with other societies. It was explained to us that the volume of its business and diversity of operations as also representative cooperative character entitled it to be considered as the premier cooperative insurance society and this aspect should be kept in view in any pattern of organisation which may be suggested. Responsible cooperative opinion both in Maharashtra and elsewhere did not accept this view and were inclined to consider it as a case of fortuitous circumstances.

Maharashtra State Cooperative Insurance Society

2.24 Unlike the other societies the new Maharashtra State Cooperative General Insurance Society Ltd., which has been regis-

tered recently has its area of operation confined to the State of Maharashtra. While the byelaws provide a broad-based membership there is no provision for participation by individual policy holders in the management of the society. We would suggest this lacuna may be removed by suitably amending the byelaws.

Position in other States

2.25 The position in some other States is briefly as follows :

The Government of Mysore has its own insurance organisation but cooperatives are not necessarily insuring with this organisation. We, however, understood that in view of the considerable potential in the cooperative sector the cooperatives in the State may consider organising their own insurance society. In Kerala there is an Insurance Pool. Some of the cooperative institutions are insuring with the pool, some with the Union Cooperative Insurance Society and others with approved Joint Stock Companies. We understood that the cooperative institutions in the State were considering the possibility of promoting a cooperative insurance society. In Assam and West Bengal no consideration had so far been given to the possibility of organising a cooperative insurance society. We were informed that certain investigations were made in Uttar Pradesh and Madhya Pradesh with a view to exploring the possibilities of starting State level Cooperative Insurance Societies. The Registrar of Cooperative Societies, Uttar Pradesh, had set up a Committee of officials and non-officials in 1960 and the Committee had formulated certain proposals and byelaws for organising a society but that the proposals were kept pending. Similarly in Madhya Pradesh certain data was collected in 1960 but further consideration was not given to the proposal.

General assessment

2.26 Our general assessment of the four Cooperative General Insurance Societies which are now functioning shows that by and large the standard of their working including financial management and services rendered by the institutions is such as should justify the confidence of policy holders. This is as good as could be expected of a society with a similar level of operation in the sector other than cooperative. Two of the societies have also been able to make adequate reinsurance arrangements with reinsurers in the foreign market and we have no doubt that the other two societies also will be in a position to do so when the need arises. Though all the societies have their area of operation throughout the country their representation is mainly from the cooperative institutions in the State in which they are (were) located. None of the institutions could, therefore, be said to be of all India character, from the point of view of coverage

of membership of cooperative societies, proper representation of responsible cooperative institutions or reasonable distribution of business all over the country. We also observed that a society with proper representation of all important cooperative institutions in the State was more conducive for developing the business of cooperative institutions in the State than a society functioning from outside the State. Uniformly in all these institutions individual policy holders are not given participation in the management. This is not in accordance with cooperative principles. About a third of their total investment is in the cooperative sector and if certain local priorities with regard to investment which are currently in vogue are changed they could invest considerably more funds in the cooperative sector itself.



CHAPTER III

BASIC APPROACH TO THE PROBLEMS OF INSURANCE IN THE COOPERATIVE SECTOR

3.1 Insurance is basically a process of collective cooperation by which persons exposed to a particular common risk agree to share the risk. The insurance system being essentially based on the principles of mutuality and contractual obligation which characterise all cooperative efforts lends itself readily to the cooperative form of organisation.

3.2 The successive Five Year Plans have emphasised the role of cooperation as an instrument of a economic democracy and consequently the principal basis of organisation in many branches of our economic life. In pursuance of this objective many economic enterprises have been organised in the cooperative sector e.g., credit, marketing, processing, housing, industries, transport etc. and many more will be organised in the years to come. Promotion of cooperative efforts is thus a basic national policy.

3.3 One of the cardinal principles of cooperation is inter-cooperative relationship and servicing. The entire movement is now based on the principle of inter-se cooperation between the different sectors of the movement providing support to one another. To take an example, the cooperative marketing sector services the consumer sector and in turn is serviced by the credit sector and processing sector. The cooperative movement in our country is getting rapidly diversified, meeting new needs and performing more and larger functions. Cooperative property is "public" property owned by millions of members. Insurance of the insurable interest of such property is thus both a social obligation and an integral part of sound business management. It would be the natural aspiration of the cooperative institutions to provide for their insurance through their own insurance organisation which conforms to accepted standards of service and efficiency. During our discussions with non-officials and officials of State Governments it was strongly urged that such arrangement alone would satisfy the felt desire of cooperative institutions to provide themselves the services they require and thus lead to the fuller development of the cooperative structure. We very much appreciate this natural aspiration.

3.4 While it is not our desire to draw any parallel from the organisation of insurance companies in the joint stock sector we

would like to add that almost all the joint stock insurance companies were at one time or another conceived basically as organisations for servicing particular groups of interest. We, therefore, feel that there is nothing wrong in the cooperative societies desiring to service themselves through their own particular organisation in the matter of insurance.

3.5. The question may be asked : Is it possible for a democratic mass of cooperative institutions to organise, finance, administer and control a complicated business surrounded as they are by the powerfully organised and dominated competitive system of industry ? The answer is that it is being done, and in many cases perhaps more successfully, more economically and more efficiently than profit oriented business. One would have hardly thought it possible till a few years back for large numbers of our illiterate farmers to organise their own cooperative sugar industry, employ competent technicians and run the industry profitably. Yet one sees today no less than 50 cooperative sugar factories with an investment of nearly Rs. 50 crores running quite efficiently. Instances of a similar nature could be multiplied. Coming to insurance there are quite a number of successful cooperative insurance societies in other countries. As stated in the earlier chapter our own cooperative insurance societies which started from humble beginning have rendered to their constituents as good a standard of service as could be expected. We do not, therefore, see any need for hesitation in accepting or questioning the ability of cooperative institutions to run their own insurance organisation.

3.6. Because of fairly large margin in the insurance business there is an inevitable element of competition in the insurance sector leading sometimes to practices which are not always healthy. A cooperative insurance society with its emphasis on mutuality and based on the loyalty of its constituents can work on healthy principles and need not have to run after business. It will also be possible to have distinctive features in the working of such a society which need not be influenced by the present situation.

3.7. One of the important principles accepted in the cooperative sector is that the movement should as far as possible be self reliant and towards this end the various sectors of the movement should lend financial support to one another. As an instance it may be stated that the cooperative banks provide support to the cooperative land mortgage banks by purchasing their debentures. It is also the accepted policy of government that funds which would normally flow into the cooperative sector should not be diverted for other purposes. We understand that this has been accepted in the case of national small savings also and that

Government of India have issued instructions not to divert funds in cooperatives or funds that would normally flow to cooperatives to small savings. We have estimated the insurable business of cooperative institutions at an annual gross premium of the order of Rs. 2½ to Rs. 3 crores. We have also stated in the earlier chapter that not all this business goes to cooperative insurance societies. Even then, about Rs. 43 lakhs were invested in the cooperative movement by the end of 1962 and that the investment could be considerably more if certain local priorities are changed. With the expansion of the cooperative sector and ownership by the cooperatives of more plant, machinery and business it is estimated that this premium will be of the order of Rs. 6 crores by the end of the fourth plan. It is, therefore, very clear that the insurance organisation in the cooperative sector will have sizeable funds for supporting other sister cooperative organisations.

3.8 We have stated earlier that the cooperative movement is getting diversified and spreading into new forms of activities with considerable insurable interests. It is necessary that insurance as an obligation should be accepted and that insurance consciousness should be spread among cooperatives. The cooperative movement has a heavy responsibility which it must be enabled to discharge. Cooperative Insurance Societies built with the goodwill of their members institutions and commanding their loyalty to them can alone discharge this responsibility satisfactorily. They must educate themselves and learn to carry on their own business in their own social interest. It is a constructive function.

3.9 We would like to add even at the risk of repeating what has been said ad-nauseum that cooperation is an education in democracy. While other forms of organisation may supplement the cooperative form they cannot be a substitute.

3.10 An insurance organisation in the cooperative sector can build up an expertise in the higher technical skills and utilise such expertise for the service of the constituent units in the different sectors like marketing, machinery erection, godown construction etc., and thus complement effectively services rendered by other organisations which each constituent unit individually will not be in a position to possess.

3.11 In our discussions with officials and non-official cooperators we found complete agreement with this approach. It was strongly urged that the organisation of a cooperative insurance society should not be looked upon merely as an addition to the large number of existing business organisation but in the larger

context of the need for a fuller and balanced development of the cooperative sector, to provide services to the cooperative sector efficiently and economically and as an institution for mobilising the resources of cooperatives for use within the movement.

3.12 As stated earlier insurance being essentially a matter of service based more on cooperation and mutuality of interest it follows that as a matter of policy it would be appropriate for the state to encourage growth of cooperative insurance organisation and develop the cooperative insurance organisation as an essential part of the general State policy for encouraging cooperative development. This appears to be the only way of developing insurance more as a service rather than business making the service effective as well as sufficiently cheap by providing a mechanism for the return of profit to the shareholders themselves. In addition to that, if suitable mechanism provides for participation in management by the policyholders themselves the entire character of insurance work as such would be different. It would be something which needs specific encouragement. While we do not say that merely for these functions the entire insurance business should be cooperativised or that insurance should be the exclusive field for cooperatives, we do feel that recognition of a definite policy regarding encouraging cooperative insurance should be an essential part of the policy that Government may adopt regarding insurance. We fully realise that at a given movement the public, private and cooperative sector will exist side by side, "the influence of cooperation extending far beyond its activities and giving to the social structure and the national economy, balanced direction and a sense of value". From this point of view it is necessary to emphasise and appreciate the possible complementary role of all the three sectors and in particular the role of cooperative sector *vis-a-vis* what may be termed as "public" sector. It would be essential to explore possibilities of closest collaboration, cooperation and mutual support between the "public" and the cooperative sector as, it is, these two sectors which in close collaboration would really build up insurance more as "service" rather than a profit making "business".

3.13 With the Life Insurance Corporation, coming in the field of general insurance business, which, in view of government's special interest, could be compared with what may be called "public" sector, this matter becomes important. We strongly feel that the necessity, and desirability, as well as practical possibilities of cooperation between the Life Insurance Corporation and the cooperative sector should, therefore, be fully appreciated and Government should in fact intervene where necessary to

effect such coordination. We have proceeded on the assumption that the need for such cooperation and the desirability for the same would be obvious and we have made certain recommendations on the assumption that such cooperation would in fact be forthcoming. Once Government accepts that the policy on insurance should be oriented in the manner as indicated by us, many difficulties would disappear. Insurance of cooperative societies themselves form very useful nucleus round which the entire cooperative insurance structure can be built up and this structure can take care also of individuals who along with co-operative institutions would take part in the management and also be entitled to profits.



CHAPTER IV

ROLE OF THE STATE IN COOPERATIVE GENERAL INSURANCE

4.1. In the preceding chapter we have outlined the broad approach that should govern the organisation of a cooperative sector for doing general insurance business in the country. We have emphasised that the state should accept the cooperative form of organisation in the insurance sector as the desirable approach, and as an integral part of national policy. Consequently conditions should be created for fostering the cooperative organisation. At the same time nothing should be done which will inhibit the growth of the organisation. This leads us to the direction in which the cooperative insurance movement should be oriented and the role that the state will have to play in fostering and developing the movement.

4.2 The cooperative sector is rapidly progressing and is getting diversified in pursuance of the objective of state policy. The business of credit, marketing, processing, etc. is developing fast. The value of plant and machinery owned by cooperatives is increasing rapidly. A network of rural godowns is being constructed and these are being used for storing fertilisers, seeds, agricultural produce, etc. At the end of June, 1962 there were 3.4 lakh societies with a membership of 39 millions and a working capital of Rs. 1,535 crores. The participation by Government in the share capital of the institutions was Rs. 47.5 crores. These figures will show the order of magnitude of the cooperative sector.

4.3 Cooperatives are owned by millions of members and their property is consequently public property with insurance interests. In the course of our discussions and enquiries we found that bigger institutions like banks, sugar factories, dairy cooperatives, etc. generally insured their properties and business this was not the case with smaller institutions. For instance we understood that although instructions had been issued that all rural godowns should be insured this was not done in all cases. Also there is no built-in procedure for ensuring that all insurable interest of cooperatives are insured and to the full extent. It was pointed out to us that this was mainly due to the fact that the smaller institutions in particular were not always aware of their obligations under insurance and that there was no prescribed schedule

of insurable items for the guidance of cooperatives. We would, therefore, suggest that Registrars of Cooperative Societies should draw up a schedule of insurable interests for different types of societies and incorporate them in the rules. It should be obligatory on the part of the societies to insure their insurable interests on the basis of the schedule. The State Governments and Registrars have adequate powers to ensure the observance of sound business management by cooperatives. There is, therefore, no difficulty in giving effect to this suggestion. It will be possible to ensure the performance of this obligation by societies through the normal inspections and audit. We have recommended elsewhere that the business of cooperative institutions should be automatically insured with approved cooperative insurance organisations. It was pointed out to us that cooperative insurance organisations which had insured the property of cooperative societies at times experienced uncertainty about the continuance of the insurance business because of changes in the boards of management of the societies. The procedure we have suggested will, therefore, be a built-in safeguard against this.

In our discussion we found that State Governments and non-official cooperators were in complete agreement with this suggestion.

4.4 We had stated earlier that the premium on the business of cooperatives written by cooperative general insurance societies was only Rs. 43 lakhs during 1962. A considerable portion of the business of cooperative societies is written by other insurers. The representative of the Union Cooperative Insurance Society estimated the total premium on the insurance business of all cooperatives at about Rs. 2 to 2½ crores. On the basis of certain tentative estimates prepared by the state governments and our own assessment we estimate that the total premium may be of the order of Rs. 2½ to 3 crores at the end of 1963. This shows that there is a big gap between the potential business and the business that actually goes to cooperative insurance societies. In a subsequent chapter we have suggested a pattern of organisation which will render satisfactory service to the policy holders and in which the state governments will have confidence. We have given considerable thought as to whether in such an arrangement cooperative institutions should insure compulsorily with their own approved insurance organisation and thus follow a common policy in the matter of their insurance requirements, subject of course to the organisation providing certain minimum standards of service at least comparable to the services offered by commercial insurers. Cooperatives in different sectors function on the basis of inter-cooperative relationship providing mutual

support. For example, cooperative banks provide support to the cooperative land development banks by purchasing their debentures to the extent possible; consumers cooperatives draw their requirements from cooperative marketing societies etc. Cooperative discipline, therefore, would make such an arrangement whereby cooperative societies place their insurance business with the approved cooperative insurance society a virtual obligation. At the same time we feel that the Registrars of Cooperative Societies should ensure that the cooperatives discharge this discipline. As we have stated earlier State Governments and the Registrars have powers to ensure observance of certain discipline by cooperatives. For instance the Registrars have powers to regulate the investment of the surplus funds of cooperatives to the best advantage of the movement. There should, therefore be no difficulty in framing appropriate rules under the existing rule making powers to ensuring that cooperatives insure their business only with an approved cooperative insurance organisations. In addition, this could also be done by making it a condition of any State aid or patronage to the cooperative society which has insurable property. We accordingly recommend that this should be done. Non-official co-operators with whom we discussed this saw no justification for any possible apprehension that this would amount to any compulsion or unnecessary interference with the working of the cooperative institutions. On the contrary they felt that if a cooperative insurance society was properly organised commanding the loyalty and confidence of the institutions cooperatives would themselves find it to their advantage to insure with their own organisation and frame appropriate rules for the purpose, and would welcome this as an essential obligation of a cooperative society for developing the cooperative structure as a whole, by building up a comprehensive system of intense support between different cooperative societies. The efforts in this direction would thus be largely voluntary. However, if an obligation is to be imposed even as a condition of State aid it would be ideologically defensible.

4.5. It was pointed out to us that certain policies of government were not conducive to the cooperative institutions discharging this obligation and thus promoting the growth of their cooperative insurance organisation. Some State Governments have made it virtually obligatory on the part of some cooperative institutions to insure with their Insurance Fund or with the Insurance Pool and State aid has been made a lever of the policy. It is the accepted policy that cooperative institutions as instruments of economic policy should be supported and aided by the State but such aid should not lead to an impairment of inter-cooperative relationship

or cooperative discipline. We have suggested in the earlier chapter that the fostering of an approved general insurance organisations in the cooperative sector should be accepted as the basic approach in the national insurance policy. Given the acceptance of this basic approach it would be clear that nothing should be done which would hamper the growth of the cooperative insurance sector. Consequently there should be no compulsion direct or indirect as will weaken this approach and will lead to a dilution of the role and responsibility of the cooperative insurance organisation. We would like to refer in this connection to the following resolution of the Third Indian Cooperative Congress held in 1958.

"This Congress notes with satisfaction the progress attained by the Cooperative Insurance Societies in this country during the short period of their working due to the active support of the Cooperative institutions in this country. The Cooperative Insurance Societies have tried their level best to reduce the cost of insurance to their consumers, *i.e.* Policyholders (mainly cooperative societies) by offering them a share in the profits by way of Bonus which is a unique scheme in the history of General Insurance in this country.

With the acceptance of the ideal of Socialistic Cooperative State the Cooperative Movement in the country has acquired greater significance and in the course of time, the Movement is bound to be developed in all spheres of activity and naturally the Cooperative Insurance Sector also expects the same fillip. It has, however, been found that incidental benefits arising out of the development of the Cooperative Institutions fostered by the Government, with financial aid etc., are being ceded to the Indian Insurance Companies' Association Pool under some pretext or the other by the Government concerned a body whose 97 percent share of business is being given to Joint Stock Insurance Companies. The Cooperative Insurance Societies are self-sufficient and they do not look upon the Government for financial technical or other help but *this Congress* feels that the business of Cooperative Institutions all over the Country must be made preserved of Cooperative Insurance Societies only.

This Conference further urges upon the Central as well as the State Governments to immediately revise their policy in the matter of insuring their properties so as to allow the Cooperative Insurance Societies to actively play their role, especially taking into account the fact that the present policy to insure with the Indian Insurance Companies' Association Pool was evolved before the advent of Cooperative Insurance Industry in this country.

This Congress also prevails upon the Central as well as the State Governments to give a decent share of their own business to the Cooperative Insurance Societies in the Country by doing which the Governments themselves would be entitled to additional benefit of BONUS."

4.6 In this connection we would like to refer to the manner in which the Life Insurance Corporation could actively promote the cooperative insurance sector. We were informed that the Life Insurance Corporation was insisting on the insurance of the property of cooperative housing societies which had received assistance from the Corporation with its subsidiary organisation in preference to a suitable cooperative organisation. As we have emphasised earlier a cooperative insurance organisation is based on certain mutuality of interest and it would be perfectly legitimate for the cooperatives wanting to do business with their own insurance organisation and derive the consequential benefits which they would not by insuring even with the subsidiary of Life Insurance Corporation. In this respect there should, therefore, be no competition between the Life Insurance Corporation and approved cooperative organisations as both must be considered essentially complementary. We have dwelt on this at length as this was considerably agitating the minds of the cooperative insurance societies. They felt that without such active support from Government and Life Insurance Corporation the cooperative insurance organisation cannot grow and render to its constituents the service expected of it. Representatives of State Governments and non-official cooperators were anxious to emphasise that there should be a clear cut policy decision to remove the disabilities inhibiting the growth of the cooperative insurance sector and we strongly recommend that this should be done as early as possible. We were glad to note that there was sympathetic appreciation of this approach in responsible quarters.

4.7 In the course of our discussion we found that there was a certain amount of ill founded misapprehension that the State Bank of India was insisting on organisations with which it had dealings to insure with a particular insurance organisation. On enquiries we found that there was no reason for such a question being raised and that normally the Bank would follow a policy of only insisting on proper insurance. If the cooperatives decide to insure only with their recognised cooperative organisation and if that is in accordance with Government policy, the State Bank will have normally no reason to deviate from that policy provided the Bank was satisfied about the standing and efficiency of such a cooperative organisation.

4.8 We have dealt with the insurance of the property of co-operative institutions. There is a class of insurance business which may be called incidental to cooperative business. Land Mortgage Banks give loans to their members for the purchase of engines and pumping sets. Similarly, dairy cooperatives give loans to their members for the purchase of milch cattle. We have reason to believe that such business will be sizeable. It would be appropriate for the cooperative institutions concerned to include in their rules of business a condition about their loanees insuring the property with the approved cooperative insurance organisation only. We would also suggest that where such rules of business are to be approved by the Registrars they should normally be approved if the Registrar is satisfied about the insurance organisation.

4.9 There is another class of business which although not co-operative are rural in character like the property of panchayats or such as would lend support to cooperative efforts like the custom in the Warehousing Corporations. It is an accepted policy that cooperatives and panchayats should lend support to one another. Panchayats are being encouraged to deposit their surplus funds in approved cooperatives. Similarly, where fishery rights vest in the panchayats the local institutions are encouraged to hand them over to fishermen's cooperatives, wherever they exist. It would be appropriate if insurance of panchayat properties is reserved for cooperatives. Similarly, the Warehousing Corporations have a predominantly rural bias. They generally give preference to the produce of cooperatives and in a way supplement the activities of the marketing cooperatives. In some states the cooperative insurance societies are insuring the stocks in some warehouses. We would recommend that it should be accepted as the policy for insuring stocks in the warehouses only with approved cooperative insurance organisations.

4.10 In the course of our discussions we were informed that cooperative insurance societies, organised as they are for service to their constituent members, would generally give preference to business from cooperative institutions and business incidental thereto which we have mentioned earlier. In such an arrangement and with the loyalty of the members coupled with the internal discipline there would be no need to compete with other insurers for business in the open market. Consequently there would be a real saving in the matter of field commission and working expenditure. It is, however, necessary to ensure that such advantage actually occurred in practice and the cooperative societies insuring with their own cooperative insurance organisation actually got

much benefit. This could be done by deducting the agency commission permissible under the Indian Insurance Act from the premium payable by the policy holder cooperative. We would strongly urge that this may be done and amendments made to the Act and rules and procedures, if necessary. This will be in keeping with the objective of cooperation, *viz.* : elimination of the profits of middlemen.

4.11 We have indicated earlier the considerable potential which exists in the cooperative sector itself. With the Life Insurance Corporation entering the general insurance field it should be possible for the cooperative general insurance societies to take advantage of the expertise available in the Corporation and work out arrangements for reinsurance and other business relationship with certain amount of mutual benefit. We have no doubt that the Life Insurance Corporation will give active support to its sister organisation in the cooperative sector.

4.12 The cooperative sector with its diversified organisation going right down to the rural areas is of considerable assistance in procuring life business for the Life Insurance Corporation. They could similarly be of considerable assistance in arranging the non-cooperative business of the cooperative insurance organisation. At present cooperative societies are debarred from being appointed as agents for general business. We would recommend that such a disability should be removed to enable approved co-operative institutions being pressed into service for the cause of their cooperative insurance organisation.

4.13 It is realised that a heavy responsibility will be cast on the cooperative insurance societies and they will have to work in a manner calculated to sustain the confidence of the state and the policy holder. We wish, therefore, to stress the importance of sound business management and healthy practices in the co-operative insurance organisations. The societies should conduct their working in accordance with the provisions of the Insurance Act. Patronage involves acceptance of a pattern of regulation and methods will have to be devised for regulating the business of the societies on sound lines. In the next chapter we have dealt with the pattern of organisation. We have suggested state level societies with a strong national federation. In addition to regulation under the Insurance Act the State level societies should accept supervision, by the federal organisation. This is fully in accord with cooperative ideology.

4.14 We have envisaged close collaboration of the Life Insurance Corporation and the cooperative General Insurance Societies. In such an arrangement there could be mutual exchange of compe-

tent personnel to the advantage of both. The Life Insurance Corporation could also give suitable advice and guidance to the cooperative organisations.

4.15 In the next chapter we have dealt with the question of share capital contribution by the state in approved cooperative insurance organisation.

4.16 In the preceding paragraphs we have suggested various steps to be taken by state governments for promoting the cooperative insurance organisations. For the effective implementation of the programme and for giving guidance and assistance it is necessary to have a strong cell headed by a senior officer in the state cooperative departments. We recommend that the cost of this cell be shared equally by the Central and State governments as in the case of all departmental staff.



CHAPTER V

PATTERN OF ORGANISATION

5.1 Under our terms of reference we are required to recommend specific measures for the development of cooperative societies in the field of general insurance on sound lines. In our general assessment of the functioning of the existing societies we had indicated that though all the societies have their area of operation extending throughout the country their representation is mainly from the cooperative institutions in the State in which they are located. We had also observed that a society with proper representation of all cooperative institutions in the State was more conducive for developing the business of cooperative institutions than a society functioning from outside. We had also recommended acceptance of the basic approach that the State Central and State Governments—should accept the obligation to develop the cooperative insurance structure, in which they can feel confidence, as an integral part of national policy. This brings us to a consideration of the organisational structure best calculated to serve this objective.

5.2 As stated earlier the byelaws of all the four Cooperative General Insurance Societies which are working at present permit their operation extending throughout the country. Except in the case of the society in Madras the operations of the other three societies actually extend beyond their States to a greater or lesser degree. The Cooperative Insurance Society in Madras has confined its operations to the State of Madras. We were informed that there was some informal understanding among some of the societies under which a particular society did not operate in a given area for business of cooperative institutions. Basically, however, there is overlapping and there has been no coordination. The societies themselves have been seized of this situation for some time. We understand that certain proposals for effecting coordination were informally discussed sometime back but were not pursued further.

5.3. Cooperation is a State subject and State Governments have responsibility for promoting cooperatives on sound lines. Consequently we invited the views of the State Governments on the specific question of the organisational arrangements best suited for effective coordination between the societies functioning at present and those that may come up later. In all the discussions

we had representatives of State Governments and non-official co-operators were to emphasise that a cooperative insurance society servicing its constituent units in placing their insurance business should be in a position to create cohesion and confidence among its members and that conditions should be created which would foster a sense of mutuality, affinity, security and confidence. In particular, representatives from States which had no general insurance societies pointed out a society functioning outside the State had not been able to command that measure of loyalty from cooperative institutions in the State which a cooperative insurance society organised by the institutions in the State would have commanded. Opinion was almost unanimous that a State level society would be in a better position to create cohesion and confidence among cooperative institution than a society functioning from another State. This was all the more so in the context of acceptance of an obligation and a self regulatory discipline by the cooperatives coupled with State patronage we have suggested in the preceding chapter. Cooperation being the State's subject and insurance being essentially based on certain mutuality of interest we appreciate that States would normally be in favour of State level units. Such a State level organisation will also enable the Registrar and the State Government to give greater guidance to the societies and ensure their functioning in a healthy manner consistent with the granting of State patronage. We would, therefore, suggest that as a general policy organisation of State level Cooperative General Insurance Societies should be promoted wherever there is adequate business potential.

5.4 We have carefully considered whether such State level societies would be in a position to render satisfactorily the services expected of them and would justify the confidence of policy holders. In any such consideration the size is in itself not of decisive value and does not give in general an answer about the social usefulness of its activity. In the insurance world today one sees giants. At the same time there are very small societies like the Fishery Insurance Cooperatives of Sweden or Livestock Insurance Cooperatives of Denmark. In our own country there are insurance organisations both big and small. Our own co-operative insurance societies have started in a small way and as far as we could assess have been in a position to render satisfactory services to their numbers and have justified their confidence. In the arrangement we have proposed the society would get an organic and spontaneous stimulate both from the State and from Cooperative Institutions. The society will not have to employ aggressive salesmanship for procuring business. We have suggested earlier that the Registrar and the State Government should under the rule making powers make it obligatory for cooperatives

to insure their insurable business with an approved cooperative insurance society. Consequently most of the business which would accrue to the cooperative insurance societies would be what one might call tied business. We understand that there are some companies which are successful because of such tied business although their total extent of business is comparatively small. The societies will not, therefore, have to incur large expenditure on canvassing business, in publicity and advertisement. These special features have an important bearing in any assessment of the size of the society.

5.5 According to the requirements of the Insurance Act, the total administrative cost of an insurer having a premium income from Rs. 5 to 10 lakhs should not exceed 35 percent of the gross direct premium in respect of Fire and Miscellaneous business and 25 percent—22½ percent in Marine business excluding agency commission. There is also additional margin for expenses for an insurer during the first 10 years of his general insurance business based mainly on interest earned on the paid up capital. The cost of the branches should, therefore, roughly be about 27½ percent to 30 per cent leaving a margin of 5 to 7½ percent towards the cost of head office unit. We have worked out the economics and administrative structure of units of Rs. 5 lakhs and 10 lakhs (Appendix IV). We feel that with proper control over their working expenses and effective arrangements for reinsurance these units should be able to conduct their operations satisfactorily. We would like to add that a number of—joint stock insurers have premium income less than Rs. 10 lakhs. We would, therefore, recommend that it would be perfectly justified to organise State units when the insurance premium potential is above Rs. 5 lakhs or thereabout.

5.6 In any cooperative organisation federalism is the instinctive growth. It is also the accepted pattern. We have national federations of State level cooperative apex banks, cooperative marketing societies, cooperative sugar factories. The Cooperative insurance sector will be no exception to this. There will also be a felt need for a federation of the insurance societies. It was suggested by non-official cooperators that such a federation should appropriately be organised when at least 6 or 7 State level societies have come up. We agree with this suggestion. We consider that conditions are appropriate and business of the order indicated earlier would be available for State level societies in Gujarat, Mysore, U.P. and Madhya Pradesh immediately. We would accordingly suggest that the State Governments should sponsor the societies so that they may start functioning during the Third Plan itself. The Federation could also consequently be organised in the Third Plan itself.

5.7 In our discussions all State Governments and non-official cooperators agreed that the national federation besides being a promotional and coordinating organisation should be a strong financial organisation responsible for arranging and placing the reinsurance of all State level units on most favourable terms. The federation could distribute such reinsurance among the State level units to the extent possible and arrange for the balance of its reinsurance with others including the Life Insurance Corporation. Such collective action would secure greater benefits than if reinsurance is to be effected by each State level society and, therefore, each State level unit should in due course fall in line with this general policy of effecting reinsurance collectively.

5.8 We consider that the pattern we have outlined will combine the essential features of local co-operative initiative, effort and loyalty and a strong federal organisation capable of absorbing shocks. This arrangement would give to the local co-operators and State Governments a better feeling of participation in the management more effectively. The existing insurance organisations will have to fit in themselves into the broad structure we have suggested which would mean that every organisation will have to get itself converted for some particular State or in the alternative merge itself into the federation. An organisation which is unable to do either of this may not have any future in as much as it would not be able to claim any support as an approved cooperative insurance organisation. We expect that the details of such conversion will be settled by the federation as soon as it comes into existence. In the meantime, the Central Government can advise the State Government about the final pattern and advise different insurance institutions to fit in with this pattern if our recommendations are generally accepted. This transitory stage will no doubt require some time but conversion from the existing stage to the new pattern should be done as smoothly as possible.

5.9 In the course of our discussions with the insurance societies it was pointed out that in any such arrangement due note should be taken of the need for safeguarding the interests of the present employees. We agree with this and we hope that satisfactory arrangements would be made in this respect.

5.10 Under the pattern suggested above there will be an authorised cooperative insurance organisation in each State. The business of all cooperative institutions in the State will be compulsorily placed with this organisation. As far as business of other than cooperative organisations is concerned it should be an accepted policy that there is no competition between two cooperative organisations. In other words, within the State, authorised

cooperative insurance organisations should insure all general insurance business. In areas where State units are yet to come into existence we expect suitable arrangements will be made by the federation, by dealing with the business or through some sort of an insurance pool of the State units interested in business in those areas or permitting individual State units undertaking such business in the adjoining area as may be convenient and conducive to the growth of the integrated structure. We do not, therefore, envisage any competition between different units.

5.11 We have envisaged that cooperative general insurance societies will primarily concentrate on the business of cooperative institutions and business incidental thereto and business essentially of a rural character. It is, however, possible that the societies may undertake other business also to the extent considered necessary and desirable which they may get without resorting to any undesirable practices. In this context the role of the individual policy holder becomes important. We have earlier observed that none of the existing societies provides for representation of individual policy holders on the management. For development of insurance as a proper service and real cooperative endeavour, individuals should be encouraged to become member-policy holders so that insurance becomes really a cooperative endeavour with the policy holders having a say in the management. If necessary the representation and voting rights of individual policy holders may be regulated by rules similar to those of the rules framed under the Maharashtra Cooperative Societies Act and by prescribing certain eligibility criteria like a minimum period for which the policy holder has taken a policy etc. We expect cooperative insurance societies to develop their "non-co-operative business" on this basis of full association and participation by individual policy holders.

5.12 To ensure representative participation of different sectors of the movement in the State level units it would be useful to provide in the board of management for a specific number of each district sector like cooperative sugar factories, marketing societies, consumer cooperatives, etc.

5.13 Membership of the national federation will consist of only approved State level societies. Considering that the federation will be functioning in close collaboration with the Life Insurance Corporation, we expect the Life Insurance Corporation will agree to become a member.

5.14 In the pattern we have suggested the federation will co-ordinate the activities of the State level units, arrange their re-insurance, evolve uniform policies and generally ensure the acceptance of the obligations by the State level units and their discharging them satisfactorily. The federation will consequently have to

supervise effectively the working of the State level units. For this purpose it must engage competent technical personnel in consultation with and through the good offices of the Life Insurance Corporation. We hope the Life Insurance Corporation will provide the required assistance in this respect.

5.15 Considering the functions to be undertaken the federation will require a strong capital base. We would suggest that Government may contribute an initial capital of Rs. 20 lakhs and further capital as business expands, up to a maximum of Rs. 50 lakhs on matching basis. The State level societies may not all be in need of Government capital. However, as a measure of active State interest and patronage Government may contribute an initial capital of Rs. 2 lakhs to each approved State level society which may be increased to a maximum of Rs. 10 lakhs on a matching basis.

5.16 In accordance with accepted procedure where Government is a share holder it may nominate 3 directors on the board of management or 1/3rd the total number of directors whichever is less.



CHAPTER VI

INSURANCE OF DEPOSITS IN COOPERATIVES

6.1 We have recommended an integrated structure for developing the 'Insurance' sector within the cooperative movement, in which the State Government can feel confidence and also have stated that as a matter of principle, and practical necessity, all 'Cooperative Insurance' should be normally channelised through these recognised Cooperative Organisations. We have also indicated that it should not be left to the individual discretion of a society or its management whether a particular item should be insured under given circumstances or not. In this respect, we have said that the Registrar or the State Government within its rule making power should indicate the items and purposes for which insurance must be taken up. We have also suggested State participation—more positive interest on the part of the State Government in the cooperative insurance structure—as also recognition of the principle that the State and Central Governments should feel themselves responsible for developing the Cooperative Insurance Structure as an integral part of the national policy on "Development of Insurance".

6.2 In this context, it becomes necessary to deal with even these types of insurance which may not have been hitherto dealt with by the normal joint stock insurance structure. Crop and Cattle insurance are some of these types which we have dealt with separately. Another important item of insurance may be insurance of certain Government property like fertiliser stocks and other stocks of foodgrains etc. which are stored by the cooperative societies as Government's agents or in pursuance of certain contractual arrangements made for implementation of the State policy. No uniform policy regarding insurance of these goods handled by the cooperative societies seems to have been followed. It is, however, felt that whenever question of insurance arises, cooperative insurance organisation as envisaged by us should have a prior responsibility for undertaking such insurance in preference to any other alternative arrangement like a State insurance pool or a State sponsored insurance organisation.

6.3 Another important 'Insurance Item' which in our opinion needs to be now specially considered is insurance of deposits in the cooperative structure. Following the establishment of the deposit insurance corporation, the question of affording similar measures and protection to the deposits in cooperative institutions

has assumed importance. We are aware that a view has been held that in view of the cooperative institutions being recognised as an instrument of implementing State Government's policy of planned development and the control exercised by various State departmental authorities, compulsory insurance of all deposits as in the case of joint-stock banking institutions may not be necessary. On the other hand, some of the cooperators strongly feel that with the deposits in the normal banking structure insured and protected, absence of arrangements on similar lines may affect adversely attraction of deposits to the cooperative structure. It is, therefore necessary to decide as to what extent and for what cooperative institutions such insurance of deposits would be necessary as also the form of organisation which should undertake such insurance. We understood that Government in consultation with the Reserve Bank of India has been considering certain proposals in this behalf. Whatever decision may be taken on the question as to what deposits in what particular institutions should be insured compulsorily or otherwise in the cooperative structure, it appears to us that the organisation to be set up for taking care of such insurance, needs to be considered equally carefully. We have said separately that insurance should be regarded as an important sector of service in the cooperative movement itself and it should be considered as an integral part of the cooperative movement. In this context, we feel that any arrangement for insurance through either the existing deposit insurance corporation or any other separate organisation, may be an unnecessary duplication to the integrated Insurance Structure which we are suggesting for all forms of cooperative insurance in the country. One of the reasons that has prompted us, no doubt, for suggesting a federal structure with strong State units, is the fact that cooperation is essentially a State subject with State legislation fixing squarely on the State Government and the Registrars responsibility for controlling the working of the cooperative institutions. Any organisation, therefore, with centralised characteristics and having its basic form somewhat outside the essential cooperative structure in the State is likely to bring in certain modifications of the existing organisation for controlling the working of the cooperative structure, besides being duplication of a State supported insurance organisation which we have suggested. We, therefore, feel that even in the field of insurance of deposits, cooperative insurance organisations organised on the normal principle of dealing with this business of Insurances should be allowed to play its role. The impression that a new insurance organisation may not be able to take care of the difficult work of insurance of deposits, may not be fully justified, because whatever scheme of insurance of deposits may be envisaged, it should not be difficult for the cooperative insurance organisation to handle the same at the primary level

and make adequate reinsurance arrangement through its federation with a suitable renowned insurance organisation in the country or abroad. We have reasons to believe that such suitable reinsurance arrangements would not be impossible. Moreover, conditions of different institutions, and necessity of insuring deposit in such institutions vary from State to State. In case of central banks with Government's close association, the risk is comparatively small and even a small amount of premium should be sufficient to cover the risk involved even on normal business principles about calculating the risk under certain circumstances. In case of other institutions, the risk may be more, but then necessity of insuring the deposits in such institutions may not be equally obvious. It should, therefore, be possible for each State insurance unit to determine the rate of insurance premium chargeable along with other attendant conditions and the State Cooperative Rules to provide compulsion or otherwise of deposits in various institutions depending on certain circumstances. It should then be possible to make suitable reinsurance arrangements without much difficulty. This will make it possible to take into consideration the existing circumstances and the degree of control exercised by the State Governments and determine on such basis the extent of premium and other conditions rather than the insurance organisation itself setting up its own additional machinery for controlling the working of the societies. In other words, with State Government's active support, it is felt that insurance of deposits—whatever may be the necessity—should be ordinarily dealt with by the cooperative insurance organisations which we have suggested on the basis of normal business principles.

6.4 In any case, it is felt that a suitable Cooperative Insurance Structure in the country as suggested by us brings out a new factor which needs to be taken into consideration while dealing with the question of insurance of deposits in cooperatives and setting up a separate organisation for this purpose. Even if it is considered that a new organisation should be set up, we feel that cooperative insurance organisation suggested by us should have a specific complementary role in the working of such an organisation for certain purposes. In fact, we feel that there is obvious justification for re-examining the question of insurance of deposits and organisation to be set up for this purpose in the light of the recommendations we have made. We would, therefore, urge Government that the question may be reviewed and the responsibility which should in fact be due to the cooperative insurance organisation suggested by us should be properly assigned to the same.

CHAPTER VII

CATTLE AND CROP INSURANCE

7.1 The importance of agriculture in the national economy and the need for increased investments in land make it necessary to evolve schemes under which farmers could be given protection against the risks to which agriculture is so frequently exposed. Equally important is the provision for insurance for cattle. Barring very limited and isolated efforts commercial concerns have been hesitant to enter the field. The Bhubaneswar Resolution of the Indian National Congress has stressed the need for evolving measures to protect the farmers against risks to crop and cattle.

Experience of Cattle Insurance Societies in Burma

7.2 *A successful beginning was made in Burma during the years 1912 to 1916 where as many as 300 cooperative cattle insurance societies were working successfully. The main features of these societies were as follows :

The societies confined their operations to single villages and both plough cattle and buffaloes between the ages of 4 and 12 years were accepted for insurance. Each animal was valued twice a year and premium which was fixed at 5 per cent of the value of the animal was payable in two half yearly instalments. The indemnity payable by the society is two thirds of the value of the animal. The hides and carcass became the property of the society, and their sale proceeds were credited to the society. Valuations were made half yearly, by three experts appointed yearly by the general body, to whom also belonged the duty of vouching the death of the animal. Insurance covered death by contagious diseases like rinderpest also. No indemnity was payable if the death or loss was due to war, riot or rebellion; to theft, loss by straying; to journey by rail, steamer or boat; to action of third party, who was legally bound to make good the loss; in the case of contagious diseases where the member had failed to carry out the rules and lastly to ill-treatment or neglect by the owner. An interesting feature of the scheme was a system of re-insurance with a central society which helped and buffered the local societies against payments of heavy indemnities.

*Source: Cooperation and Indian Agriculture by Shri A. K. Yegna Narayana Aiyer.

Under this arrangement all the village societies were affiliated to the central society to whom one half of the premium paid for each animal was sent. When an animal died the central society met half the indemnity payable, the other half being paid by the village society.

Pilot scheme formulated by Government of India

7.3 Of late there have been certain efforts in this direction in our country. In 1948, the Government of India appointed an officer to examine the feasibility of introducing crop and cattle insurance in India. The officer submitted a report suggesting the lines on which pilot schemes should be organised. These were generally approved by a Conference of Experts in 1949. A meeting of the FAO Working Party on Crop Livestock Insurance held at Bangkok in September, 1956, recommended the pilot scheme for trial. This was later endorsed by the Regional FAO Conference at Bandung in October 1956. The scheme was, however, not proceeded with because of financial stringency. Subsequently the Governments of Andhra Pradesh, Uttar Pradesh, Madras and Rajasthan have included the scheme in the Third Five-Year Plan. The Central Government has also made a provision in the Central Plan of the Agriculture Ministry for a small unit for guiding and coordinating the work of the scheme in the States. A model scheme was also drawn up and circulated to the States. The model scheme envisages experiments in selected centres where local cooperative cattle insurance societies will be organised. Government will offer technical guidance and appoint necessary staff for supervising and coordinating the scheme. In addition the Central Government will offer reinsurance facilities to the societies directly and constitute a reinsurance fund to take care of serious financial losses arising from wide spread epidemics and heavy mortality. Due to emergency and lack of resources the scheme was deferred for the time being.

7.4 In our discussions with the State Governments and non-official cooperators it was pointed out to us that while the difficulties in working a cattle insurance scheme were undoubtedly great the present position was appropriate for starting experiments in selected areas where a high degree of technical assistance could be made available. It was pointed out that technological knowledge and control measures of cattle diseases were fairly advanced and that mortality statistics were available to some extent and that optimum conditions could be created in selected areas as to make experiments on cattle insurance more feasible today than four or five years back. This coupled with the psychological preparedness should contribute to the success of the experiments.

Role of Cooperative General Insurance Societies in Cattle Insurance

7.5 The need for cattle insurance is appreciated by all concerned. It is also agreed that in the initial stages, it will have to be a promotional programme in selected areas in which Central and State Governments will be fully involved. It is also equally clear that any large scale insurance of cattle has to be undertaken on a cooperative basis. We wish, therefore, to emphasise that the general insurance cooperatives should be fully associated from the experimental stage and wherever the societies come forward the experiments should be undertaken through them. This is necessary to enable the societies to gather the necessary knowledge and acquire the necessary experience for undertaking the work later on a large scale. There should be no rigidity about the organisational pattern at the local level and sufficient flexibility should be allowed for determining the pattern best suited.

7.6 The success of the experiments will depend on the degree of technical assistance that is provided by Government. We were informed that against a normal coverage of 1 technician for about 25,000 animals in the country there should be 1 for about 10,000 animals in the areas selected for experiments. We expect that Government will provide such assistance free. In view of the generally high mortality of livestock the cost of insurance would initially be high, placing it beyond the reach of the average farmer. It is, however, important that the actual premium to be collected from the farmer should not be kept unduly high as will induce psychological resistance in the cultivator and deter him from joining the scheme. A premium of about Rs. 10 per animal could be considered reasonable for an average cultivator. We would suggest that Government should subsidise the society to the extent of the difference in premium. With experience it may be possible to work the scheme with a lower premium ratio. Wherever State level General Insurance Societies come forward to work the scheme they should keep this business as a separate portfolio. The pilot scheme envisages that the Central Government be the reinsurer. Where the State Level Society is in a position to arrange for reinsurance with other approved insurers as in the case General Insurance it may do so. However, assistance from the Central Government should be available to it when the claims exceed a predetermined percentage of the insured amount as is contemplated in the model scheme.

7.7 As in the case of the cattle insurance scheme the pilot scheme on crop insurance prepared by the Special Offer in the Agriculture Ministry was examined by Indian Experts in insurance, agriculture and cooperation and also by the FAO Working Party

on Crop and Cattle Insurance which found the scheme workable and recommended its implementation on a pilot basis. On account of financial stringency it has not been possible to implement the scheme.

7.8 The scheme is now included in the Third Plan of Punjab as a centrally sponsored scheme. The following are the salient features of the scheme :

The scheme would cover two major food crops—wheat and gram and two important cash crops—cotton and sugarcane. The scheme will be implemented in the first year in one centre of the size of a NES Block in each of six selected districts. More centres will be added in the subsequent years. Insurance of crops will be compulsory in the selected areas for ensuring full participation, reducing hazards and for providing suitable actuarial basis for formulation of a comprehensive scheme on a wider basis. It will be an all risk insurance scheme covering all calamities beyond the control of cultivation. Indemnity will be paid only if the average yield of crop for the season for a particular centre goes below 3/4th of the standard yield of that crop for that centre. The premium is proposed to be collected along with land revenue. The entire scheme will be undertaken directly by Government. We understand that legislation will be necessary for making insurance compulsory in the selected centres and that the scheme will be implemented, as soon as necessary legislation is passed.

7.9 In our discussions officials of State Governments and non-officials agreed that crop insurance was more complicated and difficult than cattle insurance. At the same time it was suggested that experiments should be undertaken under different conditions in selected States. Areas selected for intensive agricultural production where adequate technical guidance is available and cooperative coverage and performance is reasonably satisfactory may be taken up first for the experiment. We would suggest that this may be examined.

7.10 The cooperative insurance organisation like the one recommended by us with its roots in the villages and with a network of societies as its agents at the village level is obviously the best agency for undertaking any large scale programme of crop insurance and they should be used to the maximum advantage.

7.11 In this connection we would urge certain considerations. The proposed scheme is on a compulsory basis. It may be examined whether an experiment based on voluntary participation limited to a single high money value crop like rice, tobacco,

chillies etc. but with a larger spread would be feasible. In such an experiment the village cooperatives could be pressed into service for collecting the premium. Cultivators who are not members of the village cooperative but who desire to participate in the scheme may be made nominal members. Coverage of risk could be up to some limited extent say equal to the cost of cultivation. By and large, in the intensive agricultural production districts the loans advanced by the cooperative societies cover the cost of cultivation. By insuring the risk up to the cost of cultivation the farmer will be enabled to tide over his temporary difficulty in an unfavourable year and to meet at least his cultivation expenses in the next year. Under this arrangement the village society will perform only the agency function. The entire risk will be that of the State level Insurance Society which should be provided the necessary funds by Government when claims exceed a predetermined level. The funds normally being made available by Government for remission of land revenue in times of serious crop failure could be utilised for meeting part of the losses. The suggestions we have made have certain advantages. There will be no element of compulsion. Cooperatives will be fully involved in the programme and at the grass roots there will be an agency which with its local knowledge and intimate contact will be in a position to reduce the "moral" hazard. If the proposed experiment is technically feasible we would urge that experiments may be undertaken in a few selected States offering maximum potential for the success of the experiment.

7.12 We would urge that in whatever form the experiments are undertaken the cooperative general insurance societies should be fully associated from the beginning as in the case of cattle insurance.

7.13 It is needless to emphasise that Government should take an active part in promoting crop and cattle insurance and in developing an understanding among farmers of the benefits and significance of insurance by utilising fully the services of extension staff. The establishment and operation of an effective insurance scheme will involve the Government fully in many ways, e.g., general direction, guidance and supervision, providing adequate technical and financial assistance etc.

7.14 It is necessary to realise that cattle and crop insurance have to be developed, and in due course of time, since insurance facilities will have to be made available to the farmers, in all rural areas as a normal facility. This can happen only through approved co-operative insurance organisations, as envisaged by us, functioning through the active help of village level societies. With this object in view it will have to be the responsibility of State Governments

to take initiative for starting such pilot projects, through such co-operative insurance organisation, by giving necessary guarantee and other state help. It is only then, and over a period of time, it would be possible to make such service available to the rural areas. No commercial insurance organisation can be expected to do much in this respect as, purely from the point of view of profits likely to be available consistent with risk and cost involved, such organisations may always prefer other business and not consider it worthwhile to touch this business, inspite of the obvious need for the same. This also emphasises the need for building up a suitable and strong cooperative insurance structure, in which Government can feel confidence as suggested by us.



CHAPTER VIII

PROGRAMME IN THE THIRD AND FOURTH PLAN PERIODS

8.1 Under our terms of reference we are required to indicate the programme in the Third and Fourth Plan periods. In the Chapter on the pattern of organisation we have recommended as a general policy organisation of State level cooperative general insurance societies with a strong national federation. We have also stated that existing societies will have to fit in this structure and that conditions are appropriate for organising general insurance cooperative societies in Gujarat, Mysore, Uttar Pradesh and Madhya Pradesh immediately. We suggest that this programme should be completed during the Third Plan. We expect the national federation also to come up simultaneously.

8.2 In the other States a careful assessment should be made of the business from cooperative institutions and business incidental thereto keeping in view the likely growth of the cooperative sector in the Fourth Plan. We expect that such an assessment will generally throw up possibilities of organising cooperative insurance societies in most of the other States in the early years of the Fourth Plan. The States should actively sponsor such a programme.

8.3 We have recommended Government contribution to the share capital of each State level society from an initial level of Rs. 2 lakhs up to maximum or Rs. 10 lakhs and in the case of the federation an initial contribution of Rs. 20 lakhs and a maximum contribution of Rs. 50 lakhs on matching basis. Assuming an average share capital contribution by Government of Rs. 3 lakhs to 8 State level societies and Rs. 20 lakhs to the federation during the Third Plan the total provision required will be Rs. 24 lakhs in the State plans and Rs. 20 lakhs in the Central plan of the Co-operation Department. It should not be difficult to find this small provision from the existing allocation. Assuming an additional contribution on an average of Rs. 3 lakhs to each of these 8 societies in the Fourth Plan and an average contribution of Rs. 3 lakhs to three or four additional societies to be organised in the Fourth Plan the total provision required to be made in the State plans will be about Rs. 36 lakhs. Similarly a provision of Rs. 20 lakhs may be made in the Central plans.

8.4 We recommend that as in the case of cooperative sugar factories the entire amount required by the State Governments for contribution to the share capital of State level societies may be given as a long term loan by the Central Government.

8.5 In regard to cattle insurance we have stated earlier that the Governments of Andhra Pradesh, Uttar Pradesh, Madras and Rajasthan have included the pilot scheme in their Third Plan but have deferred implementation because of lack of resources. Considering the importance of the scheme we would suggest that the State Governments may reconsider and undertake during the Third Plan at least a few pilot projects in compact areas where ordinary facilities of the required order can be provided. For the Fourth Plan we would suggest inclusion of the scheme for undertaking cattle insurance in 2 or 3 compact areas in each State. The Agriculture Ministry may include suitable provision for this purpose.

8.6 On the question of crop insurance we have earlier given details of the Panjab scheme. We have also suggested a possible alternative approach. We would suggest that the technical feasibility of the alternative approach may be examined early and a proper programme of work for undertaking experiments on a pilot basis in the districts selected for Intensive Agriculture Development (IADP) during the Fourth Plan may be formulated and appropriate provision included by the Agricultural Ministry.

8.7 We would also suggest that each State Government should immediately appoint a senior officer in their Cooperation Department for looking after cooperative insurance work. The cost will not be appreciable and can be met from the existing provision. We are not, therefore, suggesting any specific provision for this.

Sd./

L. N. BONGIRWAR.
Chairman

Sd./-

MADHAV RAO ANWARI
C. L. JAIN

Sd./-

R. VENGU,
Member Secretary

CHAPTER IX

CONCLUSIONS AND RECOMMENDATIONS

Sl. No.	Recommendations	Reference to Paragraph No. of the Report
(1)	(2)	(3)
9.1	There are four cooperative general insurance societies in India with headquarters at Madras, Hyderabad, Bombay and Cuttack. The total gross premium increased from Rs. 27.8 lakhs in 1958 to Rs. 120.03 lakhs in 1963. Of this the premium from the business of cooperative institutions was Rs. 43 lakhs during 1962.	2.1 & 2.2
9.2	In addition there is a cooperative insurance society in Orissa writing the business of third party insurance under the Indian Motor Vehicles Act.	2.1
	Similarly a Cooperative Insurance Society is functioning nominally in Bihar. A Cooperative General Insurance Society has recently been registered in Maharashtra State and will commence business as soon as it secures the necessary registration under the Insurance Act, 1938.	
9.3	By and large the standard of their working including financial management and services rendered by the institutions in such as should justify the confidence of policy holders. Though all the societies have their area of operation throughout their country their representation is mainly from the cooperative institutions in their State. None of the institutions could thus be said to be of all India character.	2.26

(1)	(2)	(3)
9.4	About a third of the investment of the societies is in the cooperative sector and if certain local priorities with regard to investment are changed they could invest considerably more funds in the cooperative sector.	2.26
9.5	Uniformly in all these institutions individual policy holders are not given participation in the management. This is not in accordance with cooperative principles.	2.26
9.6	Mutuality and collective cooperation are the basic principles of insurance and the State should accept the cooperative form of organisation in the insurance sector as the desirable approach, and as an integrated part of national policy. Organisation of insurance by cooperative institutions for servicing their insurance needs is the logical process in the development of the cooperative sector and is necessary for the fuller development of the sector. Nationalisation can never be a substitute for cooperativisation. The State should consequently promote the cooperative organisation in the insurance sector.	3.1 & 3.12
9.7	Property and business of cooperatives is public property with insurable interests. There is, however no built-in mechanism to ensure that all cooperatives insure their insurable interests. Registrars of Cooperative Societies should draw up a schedule of insurable interests for different types of cooperatives and provide in the rules for compulsory insurance of such insurable interests by each cooperative society. There should thus be no discretion left to any society in the matter of insuring its insurable interests.	4.3
9.8	Cooperative institutions should insure compulsorily with approved cooperative insurance organisations. State Governments and Registrars should frame appropriate rules for the purpose.	4.3 & 4.4

(1)	(2)	(3)
9.9	Some State Governments have made it obligatory on the part of some cooperative organisations to insure with the Insurance Fund or Insurance Pool and State aid has been made a lever of this policy. This should be removed and there should be no compulsion direct or indirect to make a society insure with any organisation other than an approved cooperative insurance society.	4.5
9.10	Similarly the Life Insurance Corporation should not insist on cooperatives, to whom it has given assistance, insuring with a particular insurance society.	4.6
9.11	Insurance of business which may be called incidental to cooperative business, e.g., loans by cooperative societies to members for purchase of milch cattle, pumping sets etc. should be exclusively with approved cooperative insurance organisations. The cooperative societies issuing such loans should make this a condition of their loan.	4.8
9.12	Insurance of business of essentially a rural character like the property of panchayats, stocks in warehouses should be reserved exclusively for approved cooperative insurance societies.	4.9
9.13	Cooperative insurance societies will not have to incur expenditure on agency commission for getting the business of cooperative organisations, business incidental thereto and business of rural character. The benefit of such consequential reduction in agency commission should be passed on to the policy holder. If necessary, the Insurance Act and Rules should be amended for the purpose.	4.10
9.14(a)	It should be possible for approved cooperative insurance societies to take advantage of the expertise available in the Life Insurance Corporation and work out arrangements for reinsurance and other business relationship to their mutual benefit.	4.11

(1)	(2)	(3)
9.14(b)	Cooperative societies are of considerable assistance in procuring life business for L.I.C. They could similarly be of considerable assistance in arranging the business of Cooperative insurance organisation.	4.12
9.15	Cooperative insurance societies should function efficiently and in a manner calculated to sustain the confidence of the State and the policy-holder. The national federation of the insurance societies should actively supervise and guide their work.	4.13
9.16	There should be a strong cell headed by a senior officer in the State Cooperative Departments to guide, supervise and assist the societies. The cost of this cell be shared equally by the central and State Governments as in the case of all departmental staff.	4.16
9.17	A cooperative insurance society with proper representation of all cooperative institutions in the State is more conducive for developing the business of cooperative institutions than a society from outside. Besides cooperation is a State subject and the State Governments are responsible for promoting the sound growth of the movement. As a general policy organisation of State level Cooperative General Insurance Societies should be promoted wherever there is adequate business potential.	5.1 & 5.3
9.18	A minimum annual business of Rs. 5 lakhs gross premium is necessary for the organisation of a cooperative general insurance society. Business of this order would be available immediately for State level societies in Gujarat, Mysore, Uttar Pradesh and Madhya Pradesh. State Governments should consequently promote societies in these States immediately. It should be possible to organise State level societies in most of the other states in the early years of the fourth plan.	5.5 & 5.6

(1)	(2)	(3)
9.19	For development of insurance as a proper service and real cooperative endeavour individual policy holders should be associated in the management if necessary through an electoral college.	5.11
9.20(a)	The State level societies should federate into a national federation. In addition to coordinating the activities of State level societies, laying down policies and supervising their functioning should arrange the reinsurance of all the State level societies.	5.6 & 5.7
(b)	The existing insurance societies will have to fit in themselves into the broad structure <i>i.e.</i> State level Societies and national federation.	5.8
(c)	In the arrangement suggested under para 9.20 (b) due note should be taken to safeguard the interests of the present employees.	5.9
(d)	Under the pattern suggested there will be an authorised Cooperative insurance organisation in each State. The business of all Cooperative institutions in the State will be compulsorily placed with this organisation.	5.10
	In areas where state units are yet to come up, suitable arrangement may be made by the federation or through some sort of insure pool of the State units or by permitting individual state units to undertake business in adjoining areas as may be convenient.	
(e)	It would be useful to provide a specific number of seats to different distinct sectors like Cooperative sugar factories, marketing societies, Consumer Stores etc. on the Board of management of a State Unit.	5.12
(f)	Membership of the national federation should consist of approved state level societies.	5.13
	L.I.C. should also become a member of this federation.	

(1)	(2)	(3)
(g)	National federation must engage competent technical personnel in consultation with and through the good offices of L.I.C.	5.14
9.21	The national federation will require a strong capital base. Government may contribute an initial capital of Rs. 20 lakhs and further capital as business expands upto a maximum of Rs. 50 lakhs on matching basis. Similarly in the case of State level societies Government may contribute Rs. 2 lakhs initially and increase it to a maximum of Rs. 10 lakhs as business expands.	5.15
9.22	When Government becomes a shareholder it may nominate 3 directors on the board of management or 1/3 the total number of directors whichever is less.	5.16
9.23	An important item of insurance may be insurance of Government property like fertiliser stock, stocks of foodgrains etc., which are stored by cooperatives as agents of Government or in pursuance of certain contracted arrangements made for implementation of the State policy. Wherever any question of insurance of such property arises cooperative insurance organisations should have a prior responsibility for undertaking such insurance, in preference to any other alternative arrangement like a State insurance pool or a State sponsored insurance organisation.	6.2
9.24	Even in the field of insurance of deposits of cooperatives, cooperative insurance organisations should be allowed to play their role. It should not be difficult for the cooperative insurance organisation to handle the business and make adequate reinsurance arrangements. The arrangements contemplated and the organisation proposed to be set up for insurance of deposits in cooperatives should be reviewed in the light of these considerations.	6.3 & 6.4

(1)	(2)	(3)
9.25	It is necessary to evolve schemes for protecting farmers against risks to crop and cattle. Government should take an active part in promoting this.	7.1
9.26	Cattle insurance has to be a promotional programme in the initial stages in which Government will be fully involved. The pilot scheme formulated by the Central Government should be undertaken in areas where a high degree of technical assistance could be provided. It is, however, essential that such work is organised in association with the cooperative general insurance societies as any large scale programme of cattle insurance has to be undertaken by these societies and they should be enabled to acquire the necessary experience. Wherever general insurance cooperatives come forward to run the scheme they should be enabled to do so. Assistance from Government should be available to them when the claims exceed a predetermined percentage of the insured amount.	7.4, 7.5 & 7.6
9.27	Under the model scheme for crop insurance formulated by the Central Government insurance of crops is compulsory. The technical feasibility of undertaking an alternative scheme in which insurance will be voluntary but spread over a larger area and limited to a single money value crop may be examined. However, in whatever form the experiments on crop insurance are undertaken Government should be fully involved. As in the case of cattle insurance the experiments should be undertaken in association with or through the cooperative general insurance societies.	7.10 & 7.11
9.28	The establishment and operation of an effective crop and cattle insurance scheme will involve the Government fully in many ways; general direction, guidance and supervision, providing adequate technical and financial etc.	7.13 & 7.14

(1)	(2)	(3)
9.29	Conditions are appropriate for organising State level general insurance cooperatives immediately in Gujarat, Mysore, Uttar Pradesh and Madhya Pradesh. This programme should be completed in the Third Plan. The national federation will also come up simultaneously. It should be possible to organise societies in most of the other States in the early years of the Fourth Plan.	8.1 & 8.2
9.30(a)	Provision of Rs. 24 lakhs in the State plans and Rs. 20 lakhs in the Central Plan will be required for giving share capital to the societies in the Third Plan. Provision required in the Fourth Plan for this purpose will be Rs. 36 lakhs in the State plans and Rs. 20 lakhs in the Central Plan.	8.3
9.30(b)	The entire amount required by State Governments for contribution to the Share Capital of State level societies may be given as a long term loan by the Central Government.	8.4
9.31	A few pilot projects on cattle insurance should be undertaken in the Third Plan. Provision should be made for undertaking this work in 2 or 3 compact areas in each State.	8.5
9.32	Experiments on crop insurance may be undertaken in the Fourth Plan in the IADP Districts and appropriate provision included for this purpose.	8.6

APPENDIX I
Government of India
Ministry of Community Development & Cooperation
(Department of Cooperation)
Krishi Bhawan,
New Delhi, the 14th January, 1964

24th Pausa, 1885

RESOLUTION

No. F. 9-26/63-Coord.

The question of drawing up specific programmes for the development of general insurance cooperative societies on sound lines has been under the consideration of the Government. It has accordingly been decided to constitute a study team to examine the working of the general insurance cooperative societies, to suggest measures for their development and to recommend the future line of development.

2. The study team will consist of the following:—

1. Shri L. N. Bongirwar, Registrar of Cooperative Societies, Maharashtra, Poona.	<i>Chairman</i>
2. Shri C. L. Jain, Regional Manager of the Headquarters, Administrative Machinery of the General Insurance Council, New Delhi.	<i>Member</i>
3. Shri Madhav Rao Anwari, Managing Director, the Cooperative General Insurance Society Ltd., Hyderabad.	<i>Member</i>
4. Shri R. Vengu, Under Secretary, Department of Cooperation, Ministry of Community Development & Cooperation.	<i>Member</i> <i>Secretary</i>
3. The following will be the terms of reference of the study team:— <i>(i)</i> to review the present functioning of cooperative societies in the field of general insurance; <i>(ii)</i> to recommend specific measures for their development on sound lines; and <i>(iii)</i> to indicate the promotional steps and future programmes for the organisation and working of cooperatives in the general insurance sector, particularly in the third and fourth plan periods.	
4. The study team may visit states for collecting information and for recording evidence of both officials and non-officials. The headquarters of the study team shall be at New Delhi.	
5. The study team will submit its report within three months from the date of appointment.	

Sd/- *N. E. S. Raghavachari*, Additional Secretary
to the Government of India,
Ministry of Community Development and Cooperation.

APPENDIX II

1. Name of the general insurance society and date of registration.
2. Number of membership (individuals and societies).
3. Whether each policy holder is a member.
4. Board of management including names of directors and societies represented by them.
5. (a) Volume of insurance business done during the last six years 1958-1963 with yearwise break up from (i) cooperative societies (ii) government pool business, and (iii) others.
- (b) Gross premium income earned during the last six years.
- (c) Underwriting limits in respect of each class of business.
- (d) Volume of reinsurance business effected out of the total business as at (a) with companies in (i) the country and (ii) abroad during the last six years.
- (e) The amount of reinsurance premium paid to (i) companies in the country and (ii) abroad on the business effected during the last years.
- (f) whether the volume of reinsurance business done by the society with companies abroad is proportionately higher (in reference to business turnover) than similar reinsurance business done by the government controlled general insurance company (working in the state) or any private company of comparable size. If so, what is the reason for it and whether the cooperative insurance society is prepared to re insure with Indian companies to a larger extent to reduce drainage on foreign exchange.
- (g) The amount of reinsurance premia earned during the last six years particularly from companies abroad.
- (h) Whether the reciprocity is on a profit basis to the company.
6. Claims under policies less reinsurance in each of the six years.
7. Rate of rebate on premium paid to policy holders as compared to private companies. How does it compare with other companies in respect of government insurance?
8. Rate of commission paid to agents as compared to private companies and government controlled companies.
9. Whether cooperative societies not carrying on insurance (business) are appointed as branch managers.
9. (a) Expense ratio in each of the six years 1958 to 1963.

Admissible under the Act	Actuals	Any warning by Controller Insurance under Section 40(c)
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0. Any other special facilities or concessions which are given by cooperative insurance societies to policy holders as compared to private insurance companies.

APPENDIX III

LIST OF OFFICIALS AND NON-OFFICIALS WITH WHOM THE STUDY TEAM HELD DISCUSSIONS

BOMBAY

1. Shri K. S. Sonawane, Minister for Cooperation, Maharashtra State.
2. Shri T. S. Bhardwaj, Speaker, Maharashtra State Legislative Assembly.
3. Shri V. L. Mehta.
- *4. Prof. D. G. Karve.
- *5. Shri B. Venkatappiah, Chairman, State Bank of India.
6. Prof. D. R. Gadgil, Chairman, Maharashtra State Cooperative Insurance Society.
7. Shri R. G. Saraiya.
8. Shri M. R. Bhide, Deputy Governor, Reserve Bank of India.
9. Shri J. L. Mehta, Chairman, Union Cooperative Insurance Society.
10. Shri D. N. Desai, Manager, Union Cooperative Insurance Society.
11. Shri S. K. Desai, Dy. General Manager, India Refinance Corporation.
12. Shri N. A. Kalyani, Chairman, Bombay State Cooperative Land Mortgage Bank.
13. Shri G. R. Palker, Managing Director, Bombay State Cooperative Land Mortgage Bank.
14. Shri V. B. Patel, M.L.A., Sangli.
15. Shri R. D. Patil, Vice-Chairman, Maharashtra State Cooperative Marketing Society.
16. Shri N. S. Kulkarni, Managing Director, Maharashtra State Coop. Marketing Society.
17. Shri V. T. Chari, Deputy Secretary, Cooperation and Rural Development Department, Government of Maharashtra.
18. Shri S. R. Deshpande, Insurance Officer, Maharashtra Government.
19. Shri N. S. Pandit, Joint Registrar, Cooperative Societies.
20. Shri R. R. Vani, Joint Registrar, Cooperative Societies.
21. Shri D. A. Ambedkar, Joint Registrar, Cooperative Societies.

HYDERABAD

1. Shri Raja Guru Das, Chairman, Cooperative General Insurance Society
2. Shri Y. Bulli Raju, Director, Cooperative General Insurance Society
3. Shri D. Ramakant Rao Do.
4. Shri Kashinathras Mukhpalkar Do.
5. Shri P. Hanumanth Rao Do.
6. Shri G. Hanumanth Rao Do.
7. Shri L. V. Subha Rao Do.
8. Shri P. Kesava Rao Do.
9. Shri Vithal Rao Pawar Do.
10. Shri A. H. Venkat Rao Do.
11. President, Hyderabad State Cooperative Union.

*Only the Chairman of the Team held discussions with Professor Karve and Shri Venkatappiah.

12. Shri M. Dattatrayayulu, Secretary, Andhra Pradesh State Cooperative Land Mortgage Bank.
13. Shri M. P. Carriappa, Registrar of Cooperative Societies, Andhra Pradesh.
14. Shri Ghulam Rasool, Deputy Secretary, Cooperation, Andhra Pradesh.
15. Shri S. P. Balasubramanian, Joint Registrar, Cooperative Societies, Andhra Pradesh.
16. Shri Md. Usman, Deputy Registrar of Cooperative Societies.
17. Shri Habibuddin, Deputy Registrar of Cooperative Societies.

MADRAS

(A) Officials and Non-officials of Madras

1. Shri N. S. S. Manradiar, Minister of Cooperation, Madras.
2. Shri Balasubramaniam, Addl. Secretary in charge of Cooperation, Govt. of Madras.
3. Shri V. K. Appandarajan, Registrar of Cooperative Societies, Madras.
4. Dr. P. Natesan, President, Cooperative Fire and General Insurance Society.
5. Shri D. Krishnamurthy Gounder, Vice-President, Cooperative Fire & General Insurance Society.
6. Shri S. Sengamalam Pillai, Director, Cooperative Fire & General Insurance Society
7. Shri K. S. Subrahmania Gounder Do.
8. Shri K. Govindarajan Do.
9. Shri K. Ganapathi Do.
10. Shri P. Pappa Rao Do.
11. Shri Venkatachala Gounder Do.
12. Shri T. Krishnamurthy Gounder Do.

(B) Officials and Non-officials of Mysore

1. Shri R. Baraniah, Registrar of Cooperative Societies, Mysore.
2. Shri Rama Rao, President, Cooperative Transport Association.

(C) Officials of Kerala

1. Joint Registrar of Cooperative Societies, Kerala.

CUTTACK AND BHUBANESWAR

1. Shri S. K. Sahu, Deputy Minister (Cooperation), Orissa.
2. Shri Banamali Patnaik, President, Orissa Cooperative Insurance Society
3. Shri Raghunath Panda, Vice President, Orissa Cooperative Insurance Society
4. Shri Brundan Das, Director, Orissa Cooperative Insurance Society
5. Shri N. Ramkrishna Rao Do.
6. Shri K. C. Mohapatra Do.
7. Shri Daidarie Tarida Do.
8. Shri Bhimsen Misra Do.
9. Shri Mayadhar Palai Do.
10. Shri Purushotam Kar Do.
11. Shri Purna Chandra Mohanty Do.
12. Shri Ramnath Panda Do.

13. Shri Sarat Chandra Pal, Director, Orissa Cooperative Insurance Society
14. Shri N. K. Misra Do.
15. Shri S. K. Das, Secretary, Orissa Cooperative Insurance Society.
16. K. S. Bawa, Secretary Cooperative Deptt., Govt. of Orissa.
17. L. I. Parija, RCS, Orissa.

CALCUTTA

1. Shri S. Dutt, Registrar of Cooperative Societies, W. Bengal.
2. Shri S. C. Sen Gupta, Secretary, West Bengal Cooperative Bank.
3. Representatives of Agriculture, Animal Husbandry and Dairy Development Department.

ASSAM

1. Shri A. K. Roy, Registrar of Cooperative Societies, Assam.

AHMEDABAD

1. Shri Vajubhai M. Shah, Minister for Cooperation, Gujarat.
2. Shri Maganbhai Patel, Chairman, Gujarat State Coop. Bank.
3. Shri K. Patel, Managing Director, State Coop. Bank.
4. Shri B. D. Mehta, Deputy Secy., Finance Deptt., Gujarat.
5. Shri B. S. Mehta, Deputy Secy., Rural Development Department.
6. Shri P. S. Mankad, Under Secy., Rural Development Department.
7. Shri Satyendra Shah, Registrar of Cooperative Societies.
8. Shri K. P. Bhatt, Deputy Registrar of Cooperative Societies.
9. Shri G. C. Dixit, Deputy Registrar of Cooperative Societies.
10. Shri C. A. Shah, Asstt. Registrar of Cooperative Societies.

MADHYA PRADESH

1. Shri Sham Bharosay, Jt. Registrar of Coop. Soc., Madhya Pradesh

UTTAR PRADESH

Deputy Registrar of Cooperative Societies, Uttar Pradesh

CENTRAL GOVERNMENT

1. Dr. J. S. Patel, Agricultural Commissioner, Government of India.
2. Dr. Bhattacharya, Animal Husbandry Commissioner.
3. Dr. B. R. Seth, Deputy Statistical Adviser.

APPENDIX IV

ECONOMICS AND ADMINISTRATIVE STRUCTURE OF COOPERATIVE INSURANCE UNITS HAVING A PREMIUM INCOME OF RS. 5 AND 10 LAKHS

The management expenses of an insurer generally consist of the following items:—

1. Staff salaries including gratuities and contributions to Provident Fund.
2. Travelling.
3. Stationery and Printing.
4. Furniture.
5. Postage.
6. Entertainments.
7. Audit fees.
8. Legal expenses.
9. Rents.
10. Publicity.
11. Sundry Expenses.

Each state unit will have a head office whose functions shall primarily be to issue policies to arrange for reinsurances, to settle claims, to consolidate branch accounts and to lay down general policies and to direct and supervise the operations within the state. The Head Office shall also be responsible for investment of funds.

A unit with a premium income of about Rs. 5 lakhs may have one or two branches while a bigger unit with a premium income of Rs. 10 lakhs or more may have 3 or 4 branches. The branches will be engaged in procuring insurance business, and in issuing cover notes, premium receipts etc. The Branch-in-charge will deposit all premium collections daily into the bank and intimate all acceptances along with copies of cover notes and bank receipts to the Head Office to enable the latter to issue the policies and to arrange for reinsurance, wherever necessary. He will have no authority to operate on the local premium collection account. The branch expenses will be met direct by the Head Office.

The organisational set up of each unit will mainly depend on the volume and composition of business in each state, but as the expenses of insurers are related to their gross direct premium income in India under the Insurance Act, the staff requirements etc. have been based on the premium income.

HEAD OFFICE EXPENSES HAVING A PREMIUM OF 5 LAKHS

	Rs.
Total expenses (being 7½ percent of the premium income) ..	37,500
Manager remuneration	9,000
Accountant	3,600
Superintendents 2 (one for administration and one for claims) ..	6,000
Clerical staff—four @ Rs. 150 p.m.	7,200
Class IV staff—two	1,800
<i>Other expenses</i>	
T.A. for Manager	1,500
Rent @ Rs. 200 p.m.	2,400
Postage & Stationery	1,200
Conveyance	1,800
Miscellaneous	3,000
TOTAL ..	37,500

**LIMIT OF EXPENSES FOR THE HEAD OFFICE HAVING PREMIUM
OF Rs. 10 LAKHS**

	Rs.
Total expenses (being 6 percent of the premium income) ..	60,000
<i>Remuneration</i>	
1. Manager (Rs. 1500)	18,000
2. Supervisory staff (two @ 300 p.m.)	7,200
3. Accountant @ Rs. 500	6,000
4. Clerical staff (six @ 150 p.m.)	10,800
5. Class IV (Two)	1,800
TOTAL ..	43,800

Other Expenses

6. T.A.	3,000
7. Stationery & Printing	2,400
8. Postage	1,200
9. Rent @ Rs. 250 per month	3,000
10. Conveyance expenses	2,500
11. Miscellaneous	4,100
TOTAL ..	60,000

N.B.—There is a margin of additional expenses of about 3 to 4 percent in the cases of units having a premium income of Rs. 10 lakhs.

LIMIT OF EXPENSES FOR A BRANCH HAVING A PREMIUM OF Rs. 1 LAKH

Total administrative expenses for the Branch excluding commission (being 27½ of the premium income)	27,500
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Salaries Inclusive of Allowances

1. Branch Manager—One	4,000
2. Inspectors—two	6,000
3. Clerical staff—Two (if policy is issued by H.O.)—three (if policy is issued by Branch)	5,400
4. Class IV staff—one	900
TOTAL ..	16,300

Other Expenses

5. T.A. @ Rs. 150 p.m. for 3 officers	5,400
6. Stationery & printing	1,000
7. Postage	500
8. Policy stamps	1,100
9. Rent @ Rs. 125 p.m.	1,500
10. Miscellaneous expenses	1,700
TOTAL ..	27,500

**LIMIT OF EXPENSES FOR A BRANCH HAVING Rs. 2 LAKHS
PREMIUM**

TOTAL EXPENSES (25%)	..	..	..	..	50,000
1. Remuneration of Branch Manager—one	..	..	..	..	6,000
2. Field workers—four	..	..	..	..	12,000
3. Clerical staff—four	..	..	..	..	10,800
4. Class IV Staff—one	..	..	..	..	900
					<hr/>
			TOTAL	..	29,700

Other Expenses

1. T.A. for Branch Manager and field workers..	..	..	10,000
2. Stationery & printing ..	..	..	2,000
3. Postage ..	..	..	2,000
4. Policy Stamps ..	..	..	2,200
5. Rent @ Rs. 150 p.m.	..	..	1,800
6. Miscellaneous expenses ..	..	..	2,300
			<hr/>
		TOTAL	50,000



APPENDIX V

MODEL PILOT SCHEME OF CATTLE INSURANCE IN INDIA PREPARED BY THE DEPARTMENT OF AGRICULTURE, GOVERNMENT OF INDIA

1. *Introduction*

There is an urgent need for a scheme of cattle insurance in India. It is easy to appreciate the varied benefits of cattle insurance such as, bringing security to the farmers by protecting him against sudden losses of his cattle which form the major part of his working capital, promoting the prosperity of Indian agriculture by improving the health and efficiency of cattle and encouraging breeding and dairying industries.

However, before a full-scale Cattle Insurance Scheme is introduced in the country a beginning will have to be made on a limited but adequate scale in selected areas of the country where there is likely to be good response from the cattle owners. Such a beginning must necessarily take the form of a research pilot scheme. Such a preliminary experimentation is considered essential in view of the intrinsic complex nature of cattle insurance.

2. *Objectives of the scheme*

Apart from providing relief to the cattleowners in the selected areas from loss of animals due to death the principal objectives of the pilot scheme will be as follows:—

- (i) To study the technical aspects of cattle insurance such as evolving suitable plans of insurance and modifying them in the light of experience, testing their relative value and popularity, evolving suitable actuarial basis, etc.
- (ii) To evolve methods and machinery for efficient administration; and to get an indication of costs of various operations involved in the administration.
- (iii) To educate the cattle-owners into the appreciation of the value of insurance and to demonstrate its workability.
- (iv) Training a body of persons in various areas in different aspects of administration so as to form a nucleus of personnel for extension of the scheme.
- (v) Obtaining the necessary data to serve as a satisfactory basis for a more comprehensive scheme, directly in course of working of the pilot study and also by appropriate enquiries in the areas of operation of the scheme.

3. *Period*

To begin with the scheme may be operated for a period of 5 years.

4. *Areas of operation*

The distribution of centres in the states which propose to take up cattle insurance scheme during the Third Plan may be on the following lines:—

- (i) *Andhra Pradesh* : One rural centre in the Ongole breeding tract and one urban centre in Krishna district near Vijayawada.
- (ii) *Madras State* : One rural centre in Kangayam breeding tract.

- (iii) *Punjab State* : One rural centre covering Haryana Cattle and Murrah buffaloes.
- (iv) *Uttar Pradesh* : One rural centre each in Meerut and Aligarh districts. One of them may be an urban centre.
- (v) *Rajasthan* : One rural centre in the Nagori breeding tract.

It may be mentioned, however, that the above distribution is only a tentative one and the location and number of centres will necessarily have to be done in consultation with the State Government concerned.

As far as feasible these centre will be located either in the Key Village Blocks or C.D. Blocks, where veterinary facilities are already available. Care will be taken in selecting the centres such that these represent different conditions of living of the animals, the animals are of good value, the cattle-owners are progressive in their outlook and cooperation has made headway, especially in spheres like milk production, cattle breeding etc.

5. *Nature of cattle insurance*

To begin with the insurance of cattle will be on voluntary basis. For obtaining the maximum participation in the scheme in the selected centre suitable pamphlets setting forth the objectives of the scheme and the manner of its working should be made available to the local staff and the leaders of the cultivators and local veterinary staff and the local bodies like Gram Panchayats etc.

6. *Categories of animals to be covered by the insurance*

Milch cows, buffaloes, bullocks and breeding bulls between the ages of 3 to 8 may be covered by insurance and at the time of insurance the animal should be of sound health which is to be certified by a veterinary surgeon.

7. *Risk covered*

To begin with the risk to be covered may be the loss sustained by death only.

8. *Local organisations in the area of operations*

The pilot scheme envisages the formation of Cattle Insurance Cooperative Societies, the members of which will be the persons who insure their animals. The advantages of a cooperative society as a primary insurer operating the scheme are manifold, such as close supervision over the insured animals to see that no individual member gains any unfair advantage over the society, correct valuation of the animal, bringing down the cost of the scheme by the participation of members in local administration and providing educative value of the scheme through cooperation etc.

The number of Cooperative Societies in each centre will be determined on the basis of the area of the Key Village Block or C.D. Block where it is to be located and the number of villages in the area. It is assumed that one society may conveniently be able to cater to the needs of about 20 villages which may fall within 4 miles radius of its location. Thus on an average 60 villages in a block may constitute a centre and the societies under its jurisdiction will number three.

So as to help an early accumulation of reserves, each society should have a share capital with shares of small denominations such as Rs. 2 or 5. Each member should buy at least one share and should not be allowed to insure more than one animal in respect of each share owned by him. It is proposed that the State Government should provide an Establishment grant of Rs. 1,000 to each society, a part of which may be utilised for purchasing shares in the societies. The proposed annual grant for expenses made by Government will also result in a part of the expense loading, also contributing to early accumulation of reserves.

9. Insurance contracts

For the purpose of the pilot scheme two types of policies will be offered.

(a) **Term Insurance Policy**—The main type of cattle insurance policy will be a term insurance contract under which the sum insured becomes payable provided the insured animal dies within a stated period called the 'term' of the policy. Broadly the conditions of the policy will be as follows:—

- (i) The sum insured will not exceed two-thirds of the value of the animal as determined at the beginning of this period.
- (ii) Only animals between the ages of 3 to 8 will be accepted for insurance.
- (iii) The period of insurances will be for one year only.
- (iv) When the animal insured is moved outside the area of operation of society or sold, provision may be made for a refund of a part of the annual premium.
- (v) The premium rates will be fixed in accordance with the mortality experience in the selected areas.

(b) **Endowment Insurance Policy**—The second type will be endowment insurance which provides for the payment of the insured amount as a death benefit if the insured animal dies during a certain period of years, or the insured amount as an endowment benefit if the insured animal survives to the end of the period of contract. For the purpose the pilot scheme the following conditions may be laid :

- (i) The term of contract will be for a period of 5 years.
- (ii) The age of the animal at entry should not exceed six years.
- (iii) The sum assured under the contract will not exceed 50 percent of the value of the animal.
- (iv) The sum assured will be payable if the animal survives to the end of the period of 5 years, as well as on the death of the animal during this period.
- (v) The annual premium rates will be fixed in accordance with the mortality experience in the selected areas.
- (vi) In case the policy is surrendered during the period of contract, guaranteed surrender values will be payable according to a prescribed scheme.
- (vii) The insured animal will be valued at the beginning of every year. To guard against the moral hazard arising from the temptation to kill the insured animal so to get the benefit, it may be provided in the policy that if the animal dies during the period of insurance, the excess of death benefit over the guaranteed surrender value will in no case exceed two thirds of the value of the animal determined immediately preceding death.

10. The functions of the administrative machinery

As it is not expected that there will be adequate cooperative initiative in the rural areas in the immediate future, to enable such societies being worked without considerable guidance, supervision and assistance from Government, the form of organisation visualised must be considered as intended for providing training in this form of cooperative effort. An administrative agency must therefore be provided for close general supervision of the day-to-day working of the societies in each centre. In addition to this the administrative machinery will also have to perform certain adequate records, and collect such supplementary data as may be considered necessary, so that the experience obtained

during the pilot scheme stage could be fully utilised. The working of the societies each year will have to be analysed and reviewed. Adequate machinery will have to be provided for rendering effective veterinary help to the societies. This agency will also be utilised for collecting and maintaining statistics relevant to cattle insurance relating to the area concerned.

The following administrative machinery is therefore suggested:—

A stock supervisor will be appointed in each group of 20 villages in which a Cattle Insurance Cooperative Societies operates. The stock-supervisor will be a member of the valuation committee of the society and under the guidance of the Veterinary Assistant in the area he will protect animals against contagious diseases, and help in examining and valuing them, inspect them periodically and certify deaths. The rules will provide that ill-health of animals is reported to him directly and he will arrange for treatment when necessary. On the outbreak of an epidemic he will immediately organise a campaign for its control and enforce necessary instructions with the help of the Managing Committee of the Society.

A Cattle Insurance Officer will be placed in charge of each centre. He will be in charge of the reinsurance arrangements in the centre and will supervise the work of the stock-supervisors in the centre. He will collect and maintain adequate statistics in the centre with the help of the stock supervisors. He will also see that the records of the societies are maintained in a satisfactory form and will also guide and advise the societies in their day-to-day administration. For this purpose it is suggested that he should be a member of the Managing Committee of each Society in the area. This will provide him an insight into the working of the society which will be essential for proper working of the reinsurance scheme. It is proposed to provide for an annual grant to meet a part of the secretarial expenses of the societies, during the first five years. It may be appropriate to provide that the Cattle Insurance Officer should supervise the work of the secretaries of the Societies, during the period of the scheme and work in a sense as a manager of cattle insurance for the whole centre. It is necessary that the officer should have knowledge and experience of the working of cooperative societies and it is also desirable that he should have expert knowledge of cattle.

11. *Nature of assistance from the State and Central Governments*

It is suggested that for effective working of the scheme the Cattle Insurance Societies organised in the various centres should receive assistance from Government.

(a) *State Government*

(i) It is suggested that effective veterinary facilities should be provided by the Government free of any cost. Technical help will be needed by the Societies, for examining the insured animals at entry, immunising them against contagious diseases, providing prompt and effective treatment as soon as report of ill-health or injury is received, certifying deaths, arranging campaigns to combat epidemics and also helping in the valuation and marking of animals, and periodical inspections. It will be necessary for this purpose that a veterinary officer should be available within easy access to each insured farmer. It is proposed, therefore, as mentioned earlier that a stock supervisor should be put in charge of each society who should work under the instructions of the local veterinary assistant so far as veterinary help is concerned.

(ii) General guidance and supervision of the working of Cattle Insurance Societies.

(iii) In addition to the establishment grant suggested earlier an annual grant may be made for secretariat expenses so that the expense loading provided in the premium may help to accelerate the accumulation of reserves. This may be of the order of Rs. 600 per annum per society.

(b) Central Government

Apart from technical guidance, and coordination of the scheme on an all India basis, the Central Government will offer re-insurance facilities to the Societies directly.

Wide-spread epidemics and heavy mortality resulting therefrom, may cause serious financial embarrassment both to the Cattle Insurance Cooperative Societies and the State Government as well, due to the limited operation during the pilot scheme stage. To avoid this difficulty a central agency for re-insurance facilities is desirable.

The re-insurance contract will take the following form :

the claims in any year exceed a predetermined percentage of the insured amount, the reinsurance fund will provide a major part of the excess and the society will bear the remaining part of the excess. In return for this guarantee, the society will pay a fraction of its annual premium income to the re-insurance fund. Provision will be made for returning to the societies a part of any profits in the fund resulting from the operations over a part of excess claims over a period of 5 years, as ascertained by an actuarial valuation at the end of that period. The reason for insuring only a part of the excess claims over the prescribed level is that society should in all cases have a direct interest in keeping down claims.

